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(For Now)

Time-Limited Naming Opportunities for Arts and Culture Organizations

Participating Organizations

Berkeley Repertory Theatre
Berkeley, CA

Center Theatre Group
Los Angeles, CA

The Guthrie Theatre
Minneapolis, MN

Lincoln Park Zoo
Chicago, IL

Museum of Science and Industry
Chicago, IL

The Music Center
Los Angeles, CA

Navy Pier, Inc.
Chicago, IL

Ravinia Festival
Highland Park, IL

Roundabout Theatre Company
New York, NY

San Francisco Museum of Modern Art
San Francisco, CA

For years, nonprofit organizations have motivated high-capacity donors to make leadership gifts by leveraging physical spaces or prestigious endowed positions as naming opportunities, especially during capital and/or endowment campaigns. Historically, these naming rights have been offered in perpetuity, with the legacy of a one-time gift often outlasting a supporter's relationship to an organization – or outlasting the useful purpose of a space or building altogether. While this generous stewardship strategy provides a way to celebrate a donor's legacy, donor recognition with an unlimited shelf life can "tie up" spaces or other naming opportunities that might otherwise be "resold" to attract additional support. How can organizations honor a donor's commitment in a meaningful way while balancing the need for sustainable support for the future?

In our work with nonprofit organizations across the country – and more specifically arts and culture organizations – Campbell & Company has heard many development professionals express frustration that their predecessors have offered prominent naming opportunities in perpetuity. Donor recognition is particularly front of mind for many arts and culture fundraisers as they find their way back to normal following the recession with preparations to launch significant campaigns. Furthermore, this issue is particularly pressing because arts and culture organizations are not engaging in new capital projects on a regular basis and have a limited number of lucrative spaces and "chairs" available for naming. As a result, their naming inventory is not as plentiful as it might be for other types of nonprofits.

Sunset clauses, which are growing in popularity, formally limit the length of a naming right to a pre-specified period of time, giving nonprofit organizations the opportunity and flexibility to recognize major gifts without tying up valuable naming opportunities in perpetuity. In response to an uptick of energy and conversation surrounding sunset clauses, Campbell & Company recently completed a series of qualitative conversations with 10 renowned nonprofit arts and culture organizations from across the country, with annual revenues ranging between $12 million and $207 million. These conversations took place in an effort to better understand the ways in which these organizations have used sunset clauses historically and how they plan to use them moving forward.

STATE OF THE SECTOR: USE OF NAMING OPPORTUNITIES AND SUNSET CLAUSES

Our findings suggest a growing movement toward implementing sunset clauses among arts and culture organizations and an active dialogue around establishing proper policies to support this direction. Yet relatively few concrete examples of how this new way forward has worked actually exist. Only four of the 10 organizations surveyed by Campbell & Company have closed a gift with a sunset clause attached, but the majority of organizations that have not yet closed a gift with a sunset clause have explored sunset clauses with their teams or Boards and have plans to use them in the future. Nine of the 10 participating development professionals reported favorability towards using sunset clauses, and either expressed interest in or have already implemented the concept. Furthermore, those who responded favorably to the idea of implementing sunset clauses also expressed plans to implement new policies for both individual and institutional donors. This represents a significant shift in thought. In the past, most fundraising professionals would have considered using sunset clauses in the context of corporate giving only if they even thought about it at all.

The process through which the tenure of a naming agreement is defined varies from organization to organization. For example, a large cultural institution recently offered a donor a naming opportunity for 30 to 40 years. Instead of accepting the proposed terms, the donor negotiated for the agreement to last for the lifespan of the donor's grandchildren. This provided a definitive end to the naming rights and an opportunity to "sell" the space again in the future, but still allowed the family to celebrate their legacy and feel some agency in the decision-making process.

Some organizations that are not yet comfortable explicitly adopting sunset clauses have nevertheless experimented with limiting naming opportunities in other ways. For example, during a cultural institution's most recent campaign, the development team began advertising the length of time promised for a facility naming as "no less than" a predetermined period. The staff then chose to limit the gift agreement to the anticipated lifetime of the facilities in question – 15 to 20 years – so as not to imply that the facilities, which will eventually wear down due to excessive use by the organization's visitors, will exist in perpetuity.

Several organizations have formalized opportunities for gifts with sunset clauses, but have not yet "sold" a naming right under the new policy. The Board of a large cultural institution recently voted to set the length of a naming contract to 20 years. In general, when asked for specific time periods of sunset clauses, interviewees suggested a range that was no less than 10 years but no more than 20 years. The time range for corporate donors was described as much more variable and valued from a marketing perspective as opposed to a philanthropic one.

In addition to time-limiting naming opportunities for capital projects, some organizations are also exploring opportunities to time-limit naming for both designated and general endowed funds. One organization reported a recent shift in policy so that a donor would be publically recognized for establishing an endowed fund for a period of 10 years. A higher gift level would enable the donor to be recognized in perpetuity. Another organization indicated plans to time-limit named "chairs" as a way of recognizing gifts to their general endowment. In both cases, these policies are relatively new and thus not yet activated through qualifying gifts.

ESTABLISHING A NEW WAY FORWARD: TIPS AND BEST PRACTICES

Despite the potential to motivate large gifts, naming opportunities (and sunset clauses) are not without their challenges. In fact, almost everyone we interviewed shared concerns related to one of the following core themes: policy building, valuation and managing donor expectations.

Our findings show there is no single "best practice" or ideal structure to mitigate the risks surrounding time-limited naming opportunities. However, in order to successfully implement sunset clauses, organizations must be careful to clearly define guidelines and practices, maintain open communication and transparency, and focus relentlessly on finding the intersection between stewarding major donors and planning sustainable opportunities for future fundraising. Regardless of the specifics of a particular organization's policies and procedures, it is important to remember that **a donor-centered strategy is of utmost importance to any fundraising initiative.** Approaching sunset clauses through this critical lens will help a nonprofit to develop strong, sustainable policies and procedures. It will also help to clarify when the organization should consider deviating from those practices.

The Planning Process

Moving toward time-limited naming opportunities can represent a cultural shift for many nonprofits that have been offering naming opportunities in perpetuity for generations. As a result, establishing concrete policies and procedures is essential to mitigating risk and building the right kind of buy-in from staff, trustees and prospective donors who will be impacted by the policy shift moving forward.

In order to successfully introduce sunset clauses at an organization that has not historically used them, Campbell & Company recommends that organizations consider the following steps:

1) Understand the organization's current policy and identify how the terms of historical named gifts have been established to date. While this may seem like a small step backward, taking stock of what's been promised to whom and for how long is critical to understanding how policies need to be amended for the future.

2) Convene a small, ad hoc Gift Stewardship Committee consisting of Board members and major donors (if appropriate) to review the organization's current policy and flesh out a new policy. Over the course of a few meetings, consider the following questions:

- Why is the organization considering this change?
- What is the "appetite" for a change internally within the organization and externally within the philanthropic market?
- What is the expectation of current donors based on what the organization has offered to date and what might be offered by its peers?
- What is the donor trying to accomplish with this gift?
- What is the organization hoping to accomplish with this gift?
- What kind of time limit would satisfy both donor and organizational needs?
- What are the "natural" time limits that might be applicable (i.e. facility usage, lifetime of the facility, lifetime of the donor, etc.)
- How would the proposed policy amendments impact staff 10-20 years from now?
- Who needs to provide feedback on this decision and how will staff reach out to them?
- How flexible can the organization be to accommodate extraordinary circumstances (i.e. "mega gifts," planned gifts or gifts made by longtime, significant supporters)?
- Will the policy apply to corporate/foundation/individual donors and what are pros/cons of applying the new policy to each constituent group?

3) Draft written policy reflecting responses to the above questions and seek formal approval by the Gift Stewardship Committee.

4) Present a new policy to the full Board and vote on acceptance.

5) Create talking points for use by solicitors to articulate the new policy and the rationale for moving in this direction.

6) Develop a communication plan for donors who have existing naming opportunities (these donors should be grandfathered in to the old policy unless they self-identify to conform to the new policy).

7) Create sample gift agreements reflecting new terms for recognition.

8) Share new materials at a full Board meeting.

9) Establish a formal Gift Stewardship Committee to approve any proposed changes to policies that affect donors as needed and to vet extraordinary circumstances as they arise.

We recognize that policies can vary according to gift allocation (e.g. capital, programmatic, or endowment) and donor type (e.g. individual or institutional funder). It is important that policies are not a "one size fits all" model and take into account the nuances that are often associated with major gifts. Another important consideration is the competitive marketplace and the tolerance for time-limiting recognition within a particular city or area. Some organizations may be more risk tolerant than others, but all organizations should avoid getting too far out ahead of like institutions within their region.

Valuing Naming Opportunities

While not an explicit focus of our study, several interviewees suggested that they struggle to legitimately and credibly value naming opportunities. Some have used economic impact reports in the past and others have worked with outside vendors who provide marketing valuation services in the for-profit arena. More commonly, though, fundraisers are just using their own sense of the philanthropic market and what it can bear to guide them.

For better or worse, a standard formula to determine the "price" for a naming opportunity is not readily available. Campbell & Company offers the following tips, considerations and best practices:

- **Actual cost:** For buildings or facilities, consider the actual cost of the space as a starting point for pricing. A general rule of thumb would be to offer the recognition at no less than 50% of its actual cost. But even this rule comes with caveats. If the price tag on a building is significant (roughly $75 million+), an organization may lower that percentage. Another important factor impacting pricing would be anecdotal information about the threshold for giving within a particular donor market. If gifts to name buildings or facilities have hit a ceiling in the local area, it is important for an organization to determine if there is an opportunity to break through and successfully secure a higher gift.

- **Moving from outside in:** The rule of thumb mentioned above gets cloudier when thinking about pricing to name spaces within a building or facility. Typically, naming opportunities for internal spaces should add up to more than the cost of the total building, especially since not all will be "sold" in any given campaign. For a guidepost on pricing internal spaces, we recommend thinking about visibility, usage and perceived philanthropic value as noted below.

- **Visibility, usage and perceived value:** Outside of the cost to build, consider the number of people who will interact with the named space, how many "impressions" will be made through the use of the name, how the use of the space aligns with the mission of the organization, the general appeal for each space (e.g. general office spaces vs. a lobby) and perceived importance of one space over another. Each of these factors on their own or in combination can and should significantly impact the price of a naming opportunity.

- **Perpetuity vs. useful life of the building:** We tend to think of perpetuity as forever, but a more realistic viewpoint may be the useful life of the building or space. This may be a more appropriate way to phrase the duration of a named space, and can potentially help ease an organization into time-limited recognition.

- **Managing to the plan and available donor pool:** In a campaign setting, naming opportunities should be compared against the working gift table so that, to the extent possible, there are opportunities for named gifts that match the projected goals for the upper levels of the gift table, including dollar targets and number of gifts needed. We acknowledge that not every gift to a campaign will be incented by a naming opportunity. That being said, it reflects good planning to have the "supply" available should the "demand" be present. Additionally, price points can be set based on the capacity of an organization's donor base. In theory, the gift table will align closely with this factor, but an important gut check for every fundraiser is to understand what a "stretch" commitment means for their particular organization and consider pricing top-end naming opportunities in relationship to that level.

- **Valuing naming opportunities for endowment:** Typically 5% (or 4%, depending on an institution's endowment draw policy) of a fully funded endowment will cover all or substantially all of the costs of the funded activity as defined in the gift agreement. Named endowments should be designed to support programs or staff positions that the organization intends to continue to operate well into the future, or else be described broadly enough that they could fund a range of programs/activity or staff roles. For an exclusively named endowment fund, look for at least half the cost to be covered by the draw. Recognizing that this is often a substantial amount of money, it is not uncommon for multiple donors to contribute toward a fund and thus share the recognition.

- **Variable price points:** For those organizations considering embracing sunset clauses, one way to dip a toe into this sea of change is to consider establishing variable "prices" depending on three different time periods: term or set number of years; defined number of generations of donating family; or perpetuity. The price point starts to go up incrementally with each period, and provides fundraisers with a consistent framework through which to talk about time-limiting naming opportunities with both individual and institutional donors.

- **Board expertise:** It is never a bad idea to solicit the opinion of Board members to more accurately value naming opportunities. Board members who have experience in valuation, sales, marketing, or real estate or those who have gone through a similar exercise with other nonprofit organizations can be particularly helpful in this pursuit.

Managing Expectations While Remaining Donor Centered

Although the majority of the organizations surveyed feel that the same sunset policies should apply to corporate, individual, and foundation funders, many development professionals expressed concern that it is easier to enforce time limitations when working with corporate funders, and that individuals and family foundations might not react well to the introduction of time-limited clauses.

In order to effectively steward major funders without offering a naming opportunity in perpetuity, organizations should consider:

"We want to establish a culture of philanthropy that will sustain the organization well into the future."

- **Transparency and effective communication:** Communication between development staff and donors must be consistent, robust and clear. Sunset clauses should be applied only to new naming opportunities after a policy is firmly in place and clearly communicated with donors. An organization must explain to their stakeholders why they have implemented the new policy, and work with donors to come to mutually agreeable solutions surrounding gifts. Consider ways to shift the message away from the idea that "we are limiting the duration of a donor's recognition" and toward the notion that "we want to establish a culture of philanthropy that will sustain the organization well into the future." Sunset clauses should always be explained in writing and, when appropriate, be signed off in a formal gift agreement (whether corporate, foundation, or individual donor).

- **Careful planning:** Engaging stakeholders in the conversation is an important step toward managing change. Establishing a Gift Stewardship Committee as mentioned above is one way to bring donors into the conversation about changing recognition policies. If a movement toward sunset clauses is particularly sensitive, consider hosting one-on-one meetings or small group gatherings with top donor or donor prospects to start the dialogue and elicit feedback. Regardless of where the policy decision may land, inviting donors in to provide feedback is always a good cultivation step that is well worth the time.

- **Grandfather clause:** In order to maintain positive relationships with close donors and steward historic gifts, sunset clauses should not be retroactively applied to existing named spaces or positions. This is a donor centered approach that engenders trust and positive good will among key supporters and ultimately helps to drive continued philanthropic support for the future. And sometimes this approach can result in a pleasant surprise for the organization: one interviewee reported that a positive conversation with a funder about a grandfather clause led to the donor proactively offering to "donate back" his naming right so that the organization would have the opportunity to close a new gift.

- **Right of first refusal:** All participating organizations agreed that once an organization reaches the end of the term of a successful time-limited naming opportunity, the organization should approach the existing donor with the opportunity to renew or rename the space or position before opening the opportunity to new funders. This sentiment can also be reflected in the gift agreement.

WHAT'S NEXT?

All participants expressed sincere interest in sunset clauses and the opportunity to learn from their peer institutions. Many organizations shared that their development teams or Boards are currently reexamining their policies, especially in the context of campaigns, and that naming spaces in perpetuity is no longer realistic. Any major policy change requires careful planning, consideration and communication, but offering time-limited naming opportunities as part of a larger, donor-centric fundraising strategy offers great potential for more sustainable funding.

Campbell & Company looks forward to presenting the above findings on naming opportunities and sunset clauses through a national webinar in 2015, which will feature the perspectives of a panel of senior fundraisers who have worked with time-limited naming opportunities. There will also be opportunity for open discussion, during which participants can further explore the relevant experiences, successes, and challenges that development professionals working in the arts and culture sector have experienced in this space. We hope you will join us for the conversation.

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