# How Fiscal Sponsorship Nurtures Nonprofits

*by Jonathan Spack*
*Third Sector New England*

When Tracy Hewitt founded Resource Generation in 1998 to help wealthy young people reach out to the disadvantaged and promote social justice, she realized that her new group lacked the administrative capacity to support its programmatic efforts. So she decided to leave the back-office details to a fiscal sponsor and focus her organization's efforts on its mission.

The sponsorship mechanism enables groups to organize around societal concerns without having to incorporate. It provides an infrastructure that nurtures new leadership, and it can help start-ups organize to challenge conventional practices and approaches to addressing unmet societal needs. It also offers a way to manage specialized responses to cultural communities. In other words, fiscal sponsorships can be a real boon to the fluidity, innovative capacity, and diversity of the community-development and nonprofit sector.

## How Does Fiscal Sponsorship Work?

Fiscal sponsors are 501(c)(3) charitable corporations that give unincorporated groups whose missions are aligned with their own a tax-exempt home. Although sponsored programs are not completely independent—they are legally part of the sponsor organization—they nevertheless retain programmatic autonomy and often have separate advisory boards making their strategic decisions. They are responsible for their own fund-raising, and they absorb any shortfall and retain any surplus.

Typically, the sponsor provides accounting, human resources, and other back-office services, with its cost covered by an administrative charge applied to the revenues or expenses of the sponsored program. Third Sector New England has been sponsoring client organizations since its inception, with the typical group staying for several years. Lately, more of them have been asking for help with building their organizational capacity. So TSNE has begun to offer program assessment, information-technology consultation, and strategic-planning guidance.

## Who Does Fiscal Sponsorship?

The kinds of groups offering fiscal-sponsorship services are varied. At one end of the spectrum might be might be a church, community foundation, or agency helping an emerging organization on an occasional basis because the sponsor recognizes a mission overlap. At the other end are a handful of groups organized specifically to provide such services. Often these professional fiscal sponsors serve a particular field.

Earth Island Institute in San Francisco, for example, incubates groups involved in environmental activism. TSNE and the Tides Center (San Francisco) provide support mainly to social justice groups. PHFE Management Solutions in Los Angeles works mostly with federally funded projects.

The level of service provided by fiscal sponsors also varies, depending on the sophistication of sponsors' financial and human-resource systems, the availability of shared office space, and the sponsors' capacity to provide mentoring, grant writing, technology support, and organizational development.

## Who Uses Fiscal Sponsors?

The groups that seek out sponsors are even more diverse. They may be new groups exploring their viability in terms of attracting members, raising funds, and tackling the host of challenges involved in long-term survival. Such groups often consist of marginalized populations or people passionate about social issues that are not yet recognized by mainstream groups.

Or the client organizations may be well-established and well-funded but aware that their expertise is programmatic, not administrative. Such groups are nearly always unincorporated but have evolved to scale under the comfort and security of fiscal sponsorship and have no incentive to change. In both kinds of groups are a few that want to remain fiscally sponsored projects indefinitely. One sponsored project has actually been with TSNE for 23 years. Such groups do not intend to institutionalize their operations ever, opting to do their community work with as few bureaucratic headaches as possible.

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.

## What Are the Risks?

As good as fiscal sponsorship sounds, there are significant risks on both sides of the relationship. On one side, fiscal sponsors are legally responsible for all of the activities of the groups they house. They must therefore screen those organizations carefully before agreeing to partner and must engage in diligent oversight. Sponsoring a nonprofit that has shaky finances or disarrayed leadership and governance is asking for trouble.

On the other side, the group that gets sponsored is dependent on the competence of its sponsor's staff and the reliability of its systems. Due diligence is in order when groups choose a sponsor so that they do not find themselves switching to another organization under chaotic circumstances. A prospective sponsor should have the following:

- A mission and vision similar to that of the group seeking sponsorship;
- Sufficient financial resources to ensure continuous, uninterrupted operation;
- Strong systems plus internal protocols and controls that are based on generally accepted financial and accounting principles and regulations;
- Written policies and procedures for administration and risk management;
- A long-term organizational commitment to fiscal sponsorship;
- Sufficient staff to fulfill the agreed-upon services; and
- Staff people trained to see their role as primarily customer service.

## Achieving Goals Together

Good fiscal sponsorships provide a win-win for everyone. The families and communities served through the partnerships are benefited. The unincorporated groups, projects, and grassroots coalitions that have strong, experienced fiscal sponsors can focus their attention on their mission and programs. And the sponsors themselves are able to achieve their own missions more broadly. After all, helping partners achieve their mission is the raison d'être of fiscal sponsorship. And alignment between sponsor and sponsored program, required by IRS rules and regulations, results in more resources getting directed toward the high-level, shared mission.

**"At least 15 percent of the time that I would have had to spend on administrative work is put into fund-raising, management, programming, and other critical activities."**

Because fiscal sponsorship is by definition a behind-the-scenes service, it is often under the public and philanthropic radar. Both sides to potential partnerships have nowhere to go for reliable information on the pros and cons, the criteria to weigh in advance, or appropriate partnership behavior. There is no organized network to connect up fiscal sponsors with organizations seeking sponsors.

According to TSNE's research and experience, the absence of information has several consequences:

• Many groups cannot find fiscal sponsors at all, which means that they either die on the vine or incorporate independently and devote a disproportionate amount of time and resources to administration. That is an especially critical issue for grassroots groups and those in low-income or minority communities, where the infrastructure support is less developed.

• The quality of fiscal sponsorship varies greatly, and there is no easy way for sponsored groups to evaluate the type and quality of service they are getting.

• Community-based fiscal sponsors that take on groups aligned with their mission sometimes jeopardize their own organization because they do not understand the legal and financial risks.

Recently, a handful of fiscal sponsorship organizations, including TSNE, have joined forces to form the National Network of Fiscal Sponsors. The goal is to build the field in a systematic way, transforming it from a poorly understood, high-risk endeavor to one that is widely accessible, credible, and well-supported. The first collective product of the national organization will be a set of standards. Nearly completed, it will be followed in short order by a handbook for fiscal sponsors.

Fiscal sponsorship is an idea whose time has come. As the current director of Resource Generation, Hez Norton, says of TSNE's help, "At least 15 percent of the time that I would have had to spend on administrative work [without a fiscal sponsor] is put into fund-raising, management, programming, and other critical activities that a director needs to do."

In addition to building the capacities of fledgling groups and helping them achieve sustainability, fiscal sponsorship promotes more practical thinking among everyone in nonprofit world about the viability of longer-term, shared administrative models.

---

**Jonathan Spack** *is executive director of Third Sector New England, a regional nonprofit management resource center headquartered in Boston.*