



STARTING A DEVELOPMENT EFFORT FOR YOUR FESTIVAL

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Typically, festivals have traditional funding streams – ticket sales, merchandise sales, food and beverage sales, etc. However, festivals and events can learn a lot from traditional nonprofit organizations and associations to create a development program that can be developed as a new funding stream for the festival. Donors in a strong development program can include individuals, corporations through their foundations, private foundations, public foundations, or government grants.

Many festival organizations are nonprofits and have been set up as a 501-c(3), 501-c(4) or 501-c(6) organization. These IRS designations help identify the organization. A 501-c(3) designation is the most commonly used section of the IRS code. This represents organizations that are organized exclusively for charitable, religious, scientific, literary or educational purposes and must be organized as a corporation, fund, foundation or charitable trust. Earnings from a 501-c(3) organization cannot be for the benefit of any private shareholder or individual, lobbying cannot be a substantial part of activities, the organization cannot participate in campaign activities for a political candidate, and the assets of the organization must be dedicated for an exempt purpose. Contributions are tax deductible.

The 501-c(4) organization is formed and operated to promote social welfare which is general welfare and the common good, and typically include civic orga-

nizations and volunteer fire companies. With the 501-c(4) organization, earnings of the organization cannot benefit any private shareholder or individual, it must be organized to promote social welfare to further the common good and general welfare of the people of the community, and it may not restrict the use of its facilities to certain groups. Contributions are not deductible as a charitable contribution, but may be deductible as a trade or business expense by the donor.

A 501-c(6) organization is typically a nonprofit business league, chamber of commerce, board of trade, or real estate board. Each of these organizations are groups of people or organizations that have a common business interest with a purpose to promote that interest. For instance, a chamber of commerce is comprised of merchants and businesses that want to promote their business. Again, none of the earning will benefit any private individuals, the organization is not organized for profit or engage in the type of activity normally carried on for profit, it is not engaged in activities that are the basis for its exemption, and it is typically supported by membership dues or other income from activities related to its exempt purpose. In addition, the organization must show it is devoted to the improvement of business conditions and show that the conditions of a particular trade or interest will be advanced.

A summary of the various differences can be seen below.

A development program can be created easily if your organization is a 501-c(3) organization. However, some festival and event organizations have been set up as a 501-c(4) or c(6). This makes fundraising a bit more difficult. However, these associations can create a development effort if a charitable side that is a 501-c(3) organization has been defined as part of the festival. This is seen in many associations that have an affiliated foundation with that organization.

Why would an organization create a 501-c(3) organization that is tied to the association/festival? The other types of nonprofits are associations that have members comprising the organization structure and is another source of revenue. More commonly, in this 501-c(4) association model, aside from the festival revenue streams, other revenue streams include dues, advertising, sponsorships, or registration income. Since the association has members it is member driven and the members are part of the governance structure. Dues is more of a business decision and individuals pay dues to help themselves. Typically, the dues has benefits, which the individual person or business can obtain. Overall, this creates a more inward-focused organization, where the members are interested in what benefits themselves and governance can take on a level of what is going to be beneficial to an individual member of the organization.

With that in mind, many associations have created a separate charitable side,

typically a foundation. An association foundation (the 501-c(3) side) of an organization has a different structure and outlook. Instead of members, there are donors for the organization. Revenue sources are more limited than the association side, with revenues coming from contributions and investments. With this structure, governance is more donor driven, including individuals who believe in and have funded the mission to be a part of the governance. Donations are obtained with a personal connection to the issues or needs of the organization. People will give a charitable contribution to help someone else, meaning that this leads to an outward focus for the organization – it is more than the internal membership and helps the community at large.

With this association-foundation structure in place, an organization next needs to determine its mission. This mission is the overarching reason why the organization exists. The mission should complement the purpose of the festival and not be at cross purposes with the festival. This mission should be easily articulated and be consistent across the organization.

In the association foundation model, the foundation side should be there to enhance and fund the association side or its programs that might be charitable. The missions go hand in hand. With this structure, and for good fundraising purposes, this leads to the development of strong programs for the organization. Before any fundraising takes place, programs need to be developed. The programs need to fulfill the charitable side of the organization and meet the mission of the organization. Programs should be strengthened with goals and objectives. Donors want to know details about the programs for the organization. One way to leverage the model of the association foundation is to review the programs on the association side and determine what is charitable and could be funded by the charitable side.

Festivals do have certain programs that can be charitable in nature and creating programs for a festival that includes a charitable program can be easy. For instance, if a music festival wants to build an education program, it can have the musicians go into schools and perform or speak to students.

In 2012 at Fiesta® San Antonio, the organization that was running the Miss Fiesta San Antonio® program asked the Fiesta® Commission (the c(4) association side) to take over the program. The Commission decided to have the program become a charitable function and changed it from a beauty pageant to an internship program. The fact that Miss Fiesta San

Antonio® has to be at certain appearances at certain times made it clear that this was a job. From that, it was decided that the candidates are chosen by developing a project based in one of the charitable program areas and then implement the project throughout the year. The candidate is chosen through a panel interview and a live interview where the candidates are asked about their project, its goals, and objectives. This created a charitable impact for the education pillar of the charitable organization and still fulfilled the mission of the festival. The charitable side of the organization has raised over \$22,000 in new dollars in six months to implement this new program for the organization and still meet objectives of the festival on the association side of the structure.

While funding a new program is important, through the association foundation model, many of the overhead and operating costs of the association can be funded by the charitable side. Barricades for an event or parade could be a part of a public safety program and be funded through charitable gifts. Any staff time working on the charitable programs can be reimbursed through the charitable side, along with any associated overhead for that staff. For instance, if a staff person spends 10% of their time on a certain program, 10% of their overhead (office, furniture, utilities) can be extended to that program. Meeting space used for charitable program meetings can be charged to that program. In addition, entire programs, such as volunteer management, can also be funded as these represent charitable programs of a festival or event.

Having a strong mission and programs are great platforms to begin. The last important part in creating a development effort is to create a strong board that can assist in fundraising. This becomes part of the fiduciary responsibility of the board of the 501-c(3) foundation organization. The board should be able to identify prospects, set meetings, open doors for new donors, and ask for the gifts from their peers. It is important to remember that people give to people to help people through the programs. A strong board is needed to succeed, especially as part of their fiduciary responsibility. The board needs to support the organization through donations and it should be the top of their personal charitable giving each year. It is important to have the foundation board consist of people whose main goal is to raise money for the organization and believe in the mission and programs of the organization.

When beginning the fundraising effort, it is best to start from the inside and work

outwardly. This means that those closest to the organization should give and set a pace for others to give to the organization. In meetings with potential donors, the board member will be asked how much do they contribute to the organization. Even aside from individuals, this has translated down to foundations – many grant applications now ask the percentage of board giving and the expectation is 100%.

Creating a development program and utilizing either your 501-c(3) organization or creating a separate foundation takes work. However, it can lead to more secure revenue streams for the organization as you are building a cadre of individuals and organizations that believe in your organization, its mission, and its programs. This can help in building long term relationships and stem economic downturns, weather, or other factors that can hinder the typical revenue streams of a festival.

References

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John R. Melleky, CFRE is the Chief Executive Officer for the Fiesta® San Antonio Commission. Before joining the Fiesta Commission, John was the executive director of the Society of Cardiovascular Anesthesiologists Foundation in Richmond, Va. He also founded 3fold consulting LLC, which provided event planning, association management, and fundraising services for a variety of nonprofits. While working with Veronica Whitehead & Co. as operations director, Melleky worked on conferences for Time Warner and MasterCard, and 10 years with the FORTUNE 500 Forum. He was also the operations director for Real Simple's "Get Organized New York Tag Sale" in Central Park, which raised money for the New York City Fund for Public Schools. John has a B.S. in Business Administration from the University of Richmond and an MBA from Virginia Commonwealth University and is a member of the International Festival and Events Association and the Association of Fundraising Professionals.