



CONSULTANT
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CONVENING

Fiscal Sponsorship: Exploring models, needs, and equitable practices

Welcome!

Session Objectives

- **Overview** what fiscal sponsorship is, what it's not, common models, and important considerations for sponsors and projects, including equitable practices.
- **Ground** the theory in common examples and experiences (thanks to Lucas and Priya!)
- **Create spaces** for you to ask questions and share what you're seeing, hearing, and doing in your work with nonprofits and community-led initiatives.

Quick Poll

What's your familiarity with fiscal sponsorship?
Select all that apply!

- I'm familiar with the concept of fiscal sponsorship.
- I've worked with a nonprofit serving as a fiscal sponsor.
- I've worked with a sponsored project.
- I don't know much (or anything) about fiscal sponsorship but I'm excited to learn!

Understanding Fiscal Sponsorship



What is fiscal sponsorship?

Fiscal sponsorship can be defined in terms of its **structure** and its **purpose**.

Definition: Fiscal sponsorship is when a nonprofit chooses to support a mission-aligned initiative or entity that *does not have IRS 501c3 status* by providing it with financial and administrative supports and tax advantages.

(Colvin & Petit, 2019)

- The **structural arrangement** is fundamentally a form of *strategic alliance*.
- Its **purpose** is intended to be *mutually beneficial*.
- Increasingly recognized as a **valid alternative** to starting a new nonprofit *and* a **strategy** for encouraging and resourcing innovation and community-led initiatives.

FOR PROJECTS, the fiscal sponsor is a nonprofit “home” that provides:

- **An alternative** to pursuing and maintaining its own 501c3 status, either temporarily or permanently
- Retention of its **identity**
- Core **administrative supports** and reporting (more time to focus on the work)
- The ability to pursue philanthropic and government **grants** and offer **tax deductions** to donors because of the sponsor’s 501c3 status and oversight
- And increasingly, access to organizational or **capacity building** supports.

FIELD INSIGHTS: Reasons for Choosing Sponsorship

(Interviews with Sponsored Projects)

- **Difficulty** of applying for 501(c)3 status
- Ability to **apply for grants** or other funds through their sponsor
- Enabling volunteers to **focus on running programs** that further the project’s mission rather than administering grants
- Having the sponsor handle legal issues, manage **grant administration** and funder reporting
- Expand the project’s ability to reach more people and **increase their efficacy**

FOR SPONSORS, strategic motivations might include:

- **Expanding programming** and/or **increasing proximity** to key populations
- **Encouraging innovation** while containing the risk to the organization (testing ground)
- Enabling and resourcing a **community-led response** to a crisis
- Providing a **backbone** for a community impact collaborative
- Promoting **community engagement**, activism, and/or enrichment by providing a 501c3 “home” and resources for mission-aligned individuals and community initiatives
- **Building capacity** of emerging organizations, as well as broader fields or networks within an ecosystem.



What is fiscal sponsorship NOT?

A Fiscal Agent

- Fiscal sponsorship is not simply serving as a “pass-through” for funding to a non-501c3.
- ***Sponsors are responsible for their projects.***
- Even when regrants funds, the sponsor must retain “**discretion and control**” or risk losing its own tax-exempt status.

Simply access to administrative or “back-office” services

- Sponsorship structurally entails providing benefits *and* oversight.
- Model F (technical assistance) has financial constraints.
- Contracting back-office services can be done via other arrangements (e.g., outsource, fiscal agent, MSO, membership).

A money maker (for most)

- Large sponsors where FS is the core business line may achieve economies of scale.
- Most sponsors will break even or need to fundraise to offset the costs of the services they provide their project(s), especially if they approach the work with an equity lens.

What is fiscal AGENCY and how is it different?

Source: [CharityLawyerBlog](#)

- Like sponsorship, an established charity acts as the legal agent for a project, **but a fiscal agent does not retain the discretion and control** that is a required element of fiscal sponsorship.
- Under agency law, *the agent (tax-exempt organization) acts on behalf of the principal (project) who has the right and legal duty to direct and control the agent's activities.*
- **Agency makes sense when a small nonprofit that has its own tax-exempt status wishes to contract with another organization to provide back office or administrative support.**
- Funds contributed to a non-exempt project with a fiscal agent are **not** tax-deductible to the donor.
- Many organizations intend to form fiscal sponsorships so that they can raise tax-deductible contributions but fail to establish a relationship with the sponsor that meets the IRS criteria for fiscal sponsorship.

Who (broadly speaking) is providing fiscal sponsorship?

- Ranges from large, national sponsors to small nonprofits supporting community-led initiatives.
- Fiscal sponsorship most commonly happens when a nonprofit takes on projects **within its subsector**.
- “The majority of fiscal sponsors do not disclose their fiscal sponsorship activity on the Form 990 nor on their website”
(Andersson & Neely, 2019)



Fiscal Sponsor Field Scan findings released this week!

socialimpactcommons.org

Ranging Orientations to Fiscal Sponsorship

(Delinger & Davies, 2021)

Emerging

Nonprofits that take on projects located in or supporting efforts around their community.

Mission Driven

Offers fiscal sponsorship and technical assistance to specific clientele as a core part of their mission.

Donor Specific

Take on specific projects or relationships that meet their donor or member needs.

Technical Support

Often has a large portfolio and budget and the capacity to offer core admin services (legal, grant admin, reporting) at scale.

Deep Equity

Committed to advancing racial equity through more culturally relevant, relational, and supportive approaches to sponsorship.

(New Venture Fund, 2021)

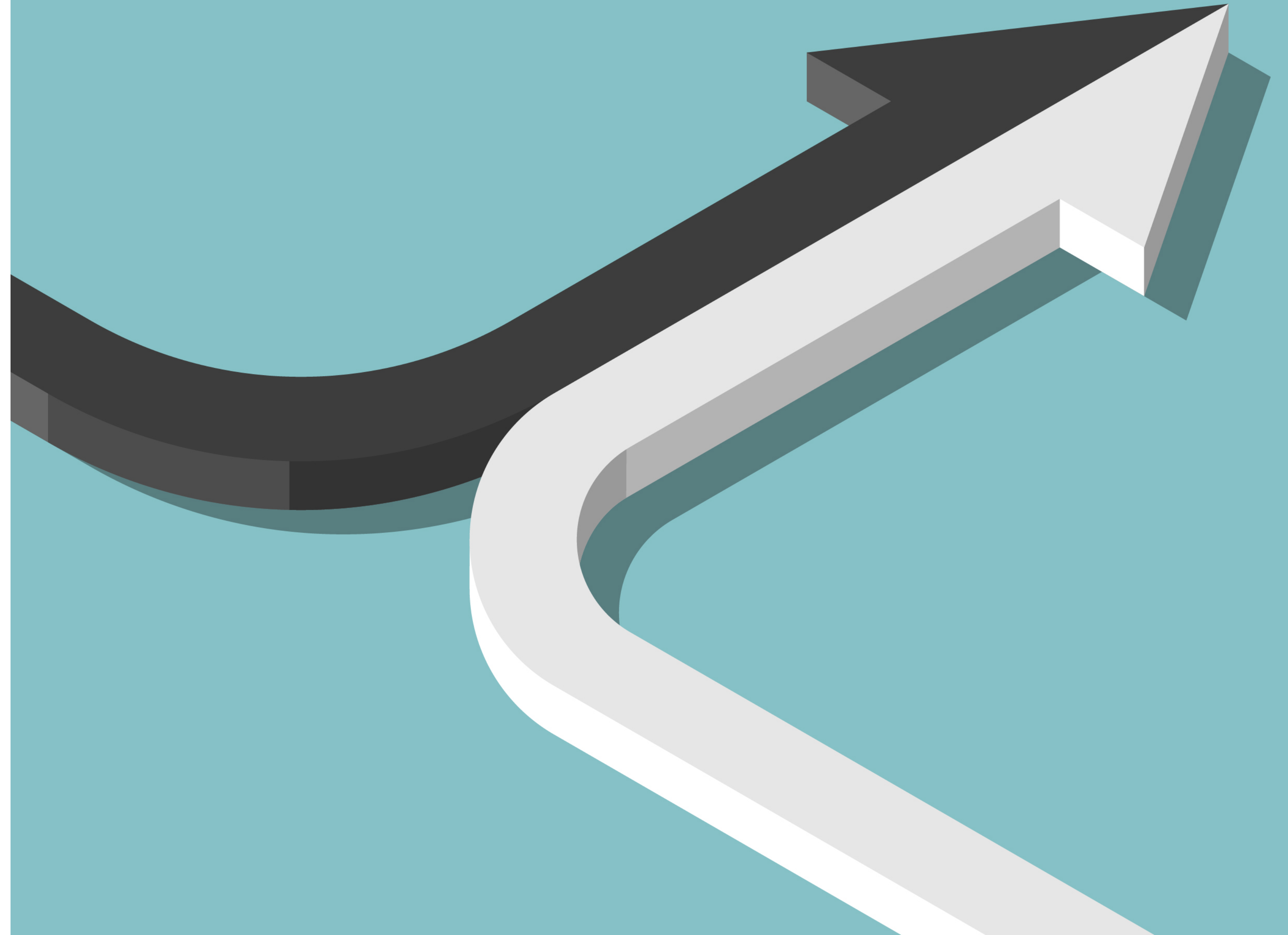
What kinds of supports do Fiscal Sponsors provide?

Basic Functions	Legal “home”	Model A only
	Core Administrative Functions (finance, compliance, HR)	Model A only
	Charitable fund administration	Models A & C
More Robust Administrative Supports	Group Purchasing (e.g. insurances and benefits)	Model A only
	Other Back-Office or Professional Services (e.g., IT, grant writing, marketing)	Discounted or included
Capacity Building	Consulting (e.g., leadership and board development, strategy)	Discounted or included
	Communities of Practice (shared learning & network building)	Sometimes
Other	Shared Spaces (nonprofit centers)	Sometimes

Importance of Mission Alignment

Mission alignment supports the ideas of:

- Mutual benefit
- Strategic investment
- Healthy oversight
- Shared values and expectations





Reflection: The Value and Limitations of Sponsorship

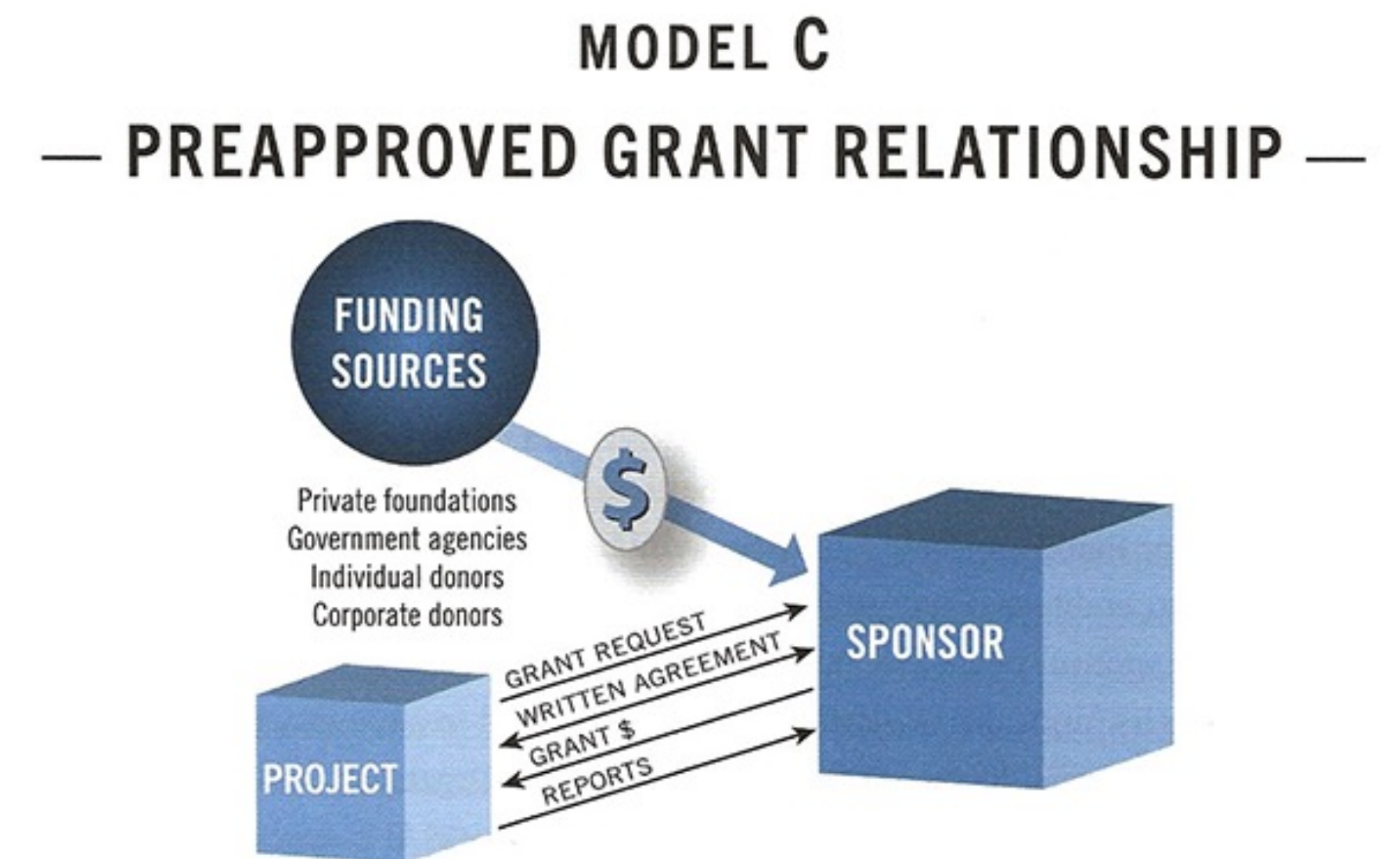
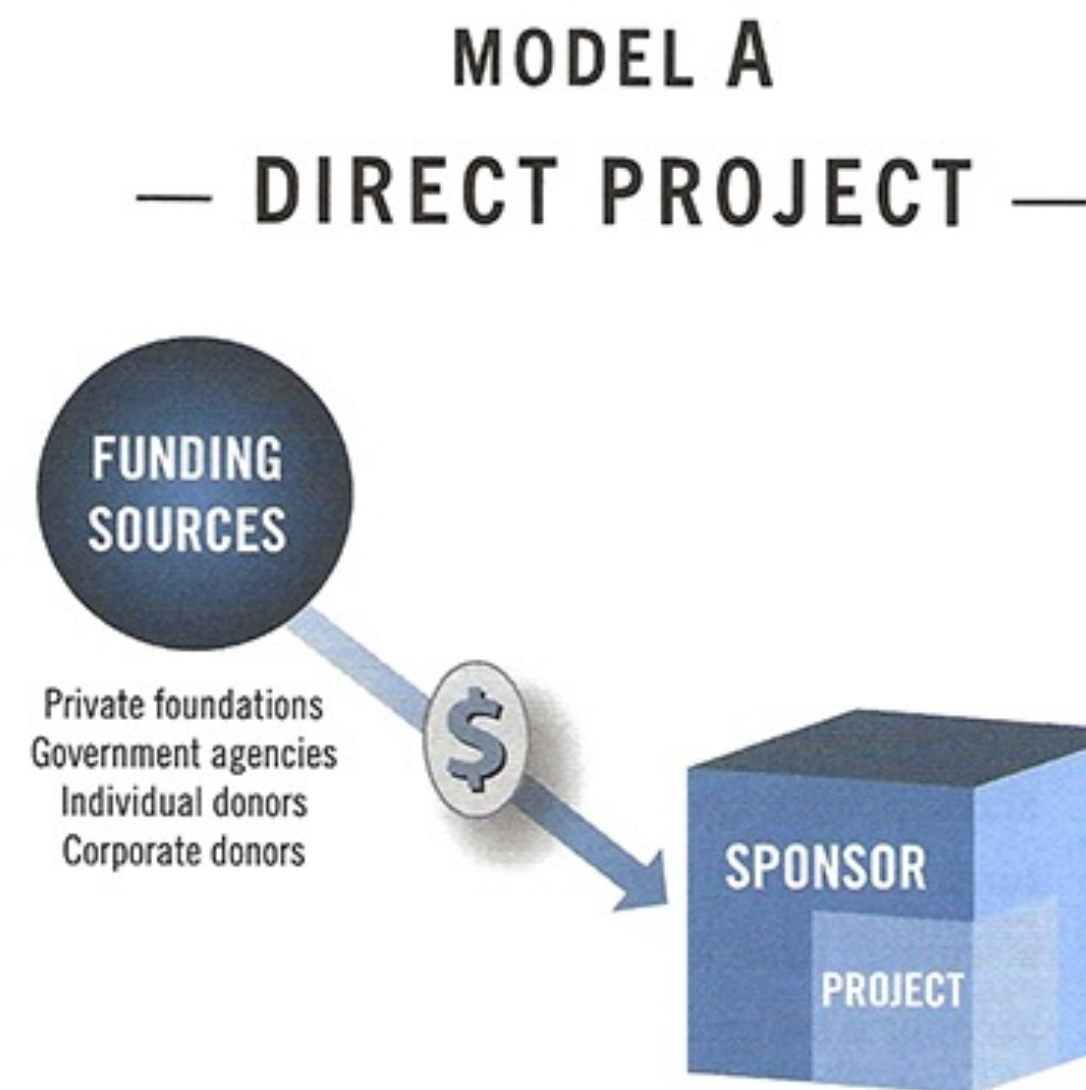
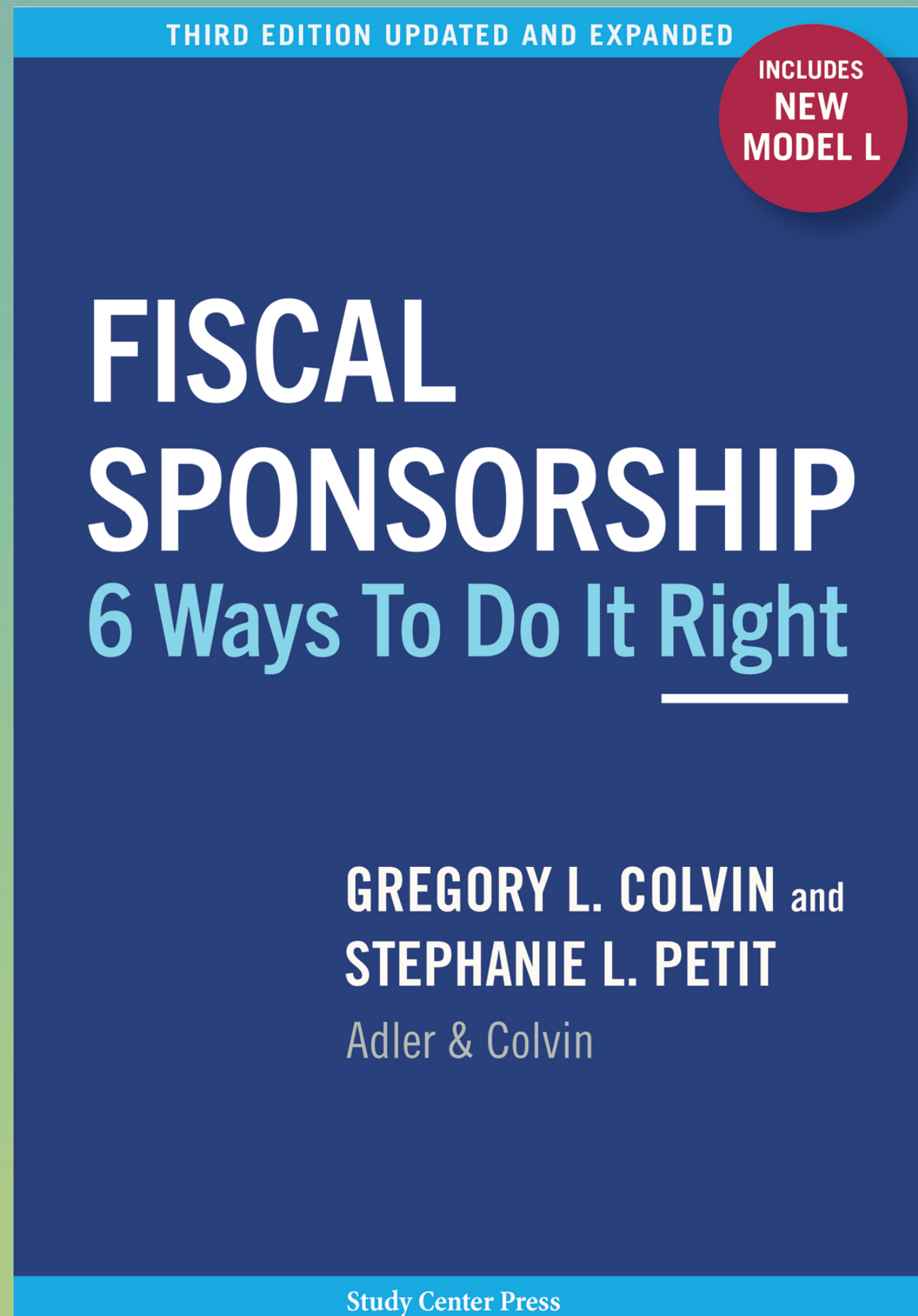
Whether fiscal sponsorship is a good fit for a project and which model to use largely depends on the context.

- **Legal Status:** It matters whether a project is already incorporated, how much it intends to formalize, whether it aims to become its own stand-alone entity, and whether it has or intends to pursue its own 501c3 designation.
- **Stage of Development:** Similarly important for both model selection as well as identifying related investments in capacity building that could advance outcomes.
- **Perspective:** Some projects may not see oversight as an issue and even welcome it, while others could see it as another example of an oppressive system that forces upon them unwanted structures and formalities in exchange for funding.

Models of Fiscal Sponsorship

The most common models of fiscal sponsorship are Model A (direct project) and Model C (preapproved grant relationship), with the edge going to Model C.

(Colvin & Petit, 2019, p. 87)



More Common Fiscal Sponsorship Models

Model	Basic Characteristics	Basic Relationship	Common Uses
A – Direct Project	Project is <i>not</i> a legal entity. It is taken fully in house and belongs to the sponsor.	<i>Employer-Employee.</i> Many projects have an advisory committee for oversight.	Incubation, short-term projects, sudden needs, joint funding coalitions
C – Preapproved Grant Relationship	The project is a legal entity that applies to the sponsor for grants. The sponsor funds the project from the money it receives on its behalf.	<i>Grantor-grantee.</i> The sponsor is liable for the terms set by funders. The project has ownership of its results and can be more easily “spun out.”	Used by non-501c3 project to raise tax-deductible funds from donors, private foundations, or government grants
L – Limited Liability Company	Project contained within an LLC solely owned by the sponsor as a single member (SMLLC).	<i>Owner-subordinate company.</i> Used by the sponsor to manage large and long-term projects with higher liability concerns.	Project has greater financial and operational independence. The SMLLC benefits from exemption while shielding the sponsor.
F – Technical Assistance	Only model where both entities are 501c3’s. Sponsor helps the project by providing back-office services.	<i>Service provider-client.</i> Instead of legal or tax advantages, the project receives <i>substantially below-cost</i> back-office services.	IRS defines “substantially below cost” as <i>at least</i> 15% below the sponsor’s direct and indirect costs, making it an act of charity.

Evolving Fiscal Sponsorship Practices to Advance Equity

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Emerging Fiscal Sponsorship Practices to Advance Equity

Recent reports that examine equitable practices among fiscal sponsors and intermediaries:

1. “[Reimagining Fiscal Sponsorship in Service of Equity](#)” by TSNE (2021) focuses on equity-centered practices for fiscal sponsors and shares four in-depth case studies on sponsors that exhibit these practices – [CultureWorks](#) in PA, [Movement Strategy Center](#) in CA, [Urban Affairs Coalition](#) in PA, and [The Foraker Group](#) in AK.
2. “[Leveraging Fiscal Sponsorship for Racial Equity](#)” by New Venture Fund (2021) considers the composition of the field of fiscal sponsorship and how to strengthen it through collaboration.
3. “[Centering Equity in Intermediary Relationships](#)” by Change Elemental (2020) offers four key ways funders can support equity-focused fiscal sponsors and intermediaries.

Emerging Fiscal Sponsorship Practices Aligned with Trust-based Philanthropy & Transformational Capacity Building

The overall recommendations

echoed across the literature are similarly simple in theory and demanding in practice:

- Build relationships
- Listen
- Challenge assumptions
- Share power
- Communicate openly
- Be responsive

Starting from a Place of Relationship

- Even when exploring equitable and integrated services, the literature consistently started by underscoring the primary importance of working from a place of relationship.
- New Venture Fund (2021) found that “More than unique tools or offerings, grassroots groups elevated *understanding, alignment, and trust* as a necessary foundation for strong partnership with their fiscal sponsor.”

HIGHLIGHTED
PRACTICE 1:

Integrate Fiscal
Sponsorship and
Customized
Capacity Building
Services

Holistic Fiscal Sponsorship Arrangements

provide “specialized technical expertise that are typically accessible only to large nonprofits”, including:

- Administrative services – legal, accounting, HR
- Shared purchasing – benefits, retirement savings
- Capacity building supports – coaching, strategic planning, grant writing, and training.
- RVC “found that providing grant-writing services to fiscally sponsored organizations has been one of the most effective strategies for increasing organizational capacity.”

(Nishimura et al., 2020, p. 34)

HIGHLIGHTED
PRACTICE 2:

Leverage External
Partnerships and
Internal Project
Networks

As intermediaries, sponsors can use their external relationships to:

- **Connect their projects with additional resources.** Fiscal sponsors are in relationship with funders that wield power and resources.
- **Advocate on their behalf.** Fiscal sponsors can convey the value and needs of grassroots groups to funders and advocate for more resources and appropriate reporting requirements.
- **Foster connection among their projects** to further their individual and collective strength, for example, through formal and informal cohorts or communities of practice.
- **Complement and supplement their own services—** because no one fiscal sponsor can do everything.

Understanding the Needs of Fiscal Sponsors



Challenges of Serving as a Fiscal Sponsor



FIELD INSIGHTS from interviews with fiscal sponsors:

- **Risk management** – Sponsors assume the risk of compliance
- **Project recruitment** (assessment for fit, needs, and risk) and **onboarding**
- **Number of responsibilities** involved and capacity required
 - Complicated audits and reporting requirements
 - Need for regular communication with projects
- **Equity-focused sponsors** have realized that capacity building is essential to provide to their projects as well

Financial Sustainability

- Fiscal sponsorship carries significant **administrative costs** associated with project oversight.
- In many cases, the costs associated with fiscally sponsoring a project are higher than the **administrative fee**.
- Even more **time and resources** are required of sponsors that center equity and relationship building in their practices.
- In the literature, the financial sustainability of **smaller and equity-focused sponsors** is consistently raised as an issue.

EXAMPLE:

For Comprehensive Model A

fiscal sponsors, administrative costs include the management and/or administration of:

- Charitable solicitations, donations, grants
- Human resources, including payroll and benefits
- Financial reporting and audits
- Government filing requirements
- Appropriate risk management tools like insurance and legal counsel

TSNE Recommends that Sponsors:

- Experiment with revenue models that allow for integrated fiscal sponsorship and capacity building services to be rendered sustainably
- Consider sliding scales and fundraising to supplement service costs
- Take on a mix of projects of different types and stages that will require varying degrees of investment to make the overall project portfolio more sustainable
- Advocate for philanthropy to supplement the costs of fiscal sponsorship and integrated capacity building.



Does anything surprise you about the challenges that sponsors have?

What supports do you think they need to succeed?

Expanding and Advancing the Field through Collaboration

To build the capacity of the field and center racial equity, New Venture Fund recommends:

- **Collaboration, resource and information sharing, and communities of practice among current fiscal sponsors.**
- Large technical sponsors help subsidize or contribute to deep-equity sponsors and support their proliferation.



“We can advance racial equity more quickly and efficiently when fiscal sponsors work together and build off each other’s strengths. Deep equity fiscal sponsors bring their own community connections and lived experience, as well as their deep relationships with grassroots groups. Larger fiscal sponsors bring their power, resources, years of experience, and relationships with funders and other intermediaries.”

(New Venture Fund, 2021)

Continuum of Solutions and Sources

Fiscal sponsorship is just one of the tools in a continuum of structural and service options intended to support the functioning, development, and success of social impact initiatives.

Thinking about fiscal sponsorship along a continuum opens the door to a wider range of integrated possibilities.

How can a grassroots initiative or small nonprofit access back-office services? What about capacity building supports?

- 💡 Become a Sponsored Project (non-501c3)
- 💡 Outsource to a Service Provider or Nonprofit Fiscal Agent
- 💡 Through an Association (Member Benefits)
- 💡 Form or Join a Management Services Organization (MSO)
- 💡 Capacity Building Programs or Grants
- 💡 Multi-year General Operating Support



What questions do you still have
about fiscal sponsorship?

What are you seeing in the field?