

The Vision for a New Community Foundation



■ Introduction

Silicon Valley has long been known as the world's capital for innovation, creativity and entrepreneurship. But people here don't just have big ideas — we have big hearts. There exists a tradition of generosity that has led many people to invest in nonprofits and good causes to make San Mateo and Santa Clara counties a better place to live, work and raise a family.

Promoting this tradition of generosity are Peninsula Community Foundation and Community Foundation Silicon Valley, two of the best community foundations in the country.

As successful as both foundations have been, the landscape for philanthropy is changing — from increasing competition and new government regulations to unprecedented growth and

complexity in global philanthropy. We believe it wise to take action now to ensure that in 50 years we're still making our region a better place to live and work.

"A merger will achieve the most social impact, because they [PCF and CFSV] can focus on driving social impact..."

– Philanthropic Expert

That's why the boards of directors of both foundations voted to move forward with plans to integrate our operations to create a single, new foundation to better serve our community and create positive social impact on a larger scale.

This new foundation — to be named Silicon Valley Community Foundation — will bring together the complementary strengths of each foundation to create a greater impact than CFSV and PCF could realize alone. As a result, it will emerge as a center for philanthropy providing world-class services to donors and nonprofits and inspiring greater civic participation throughout the San Francisco Peninsula and Silicon Valley.

■ A Tradition of Innovation

For more than 40 years, Peninsula Community Foundation has connected people, ideas and resources for the common good.

Established as the San Mateo Foundation in 1964, PCF has granted more than \$630 million to nonprofits locally, nationally and internationally and is the philanthropic partner to more than 750 families, individuals and corporations. Its donor-advised fund program is currently the second largest at a community foundation in the country.

PCF has been a trailblazer since inception, from starting a nonprofit resource center in 1977 to establishing the first dedicated center for venture philanthropy within a community foundation in 1999.

PCF's \$125 million Endowment for the Community has allowed not one but three primary platforms for community impact: Community Grants, the Center for Venture Philanthropy, and the Peninsula Partnership for Children, Youth and Families. Grants from the endowment extend from Daly City in northern San Mateo County through Mountain View in northern Santa Clara County, and PCF fundholders give to causes around the world.

The last 15 years have been a period of explosive growth for PCF: assets have climbed from \$60 million in 1992 to \$612 million today. In 2005 alone, PCF granted more than \$92 million to more than 2,500 nonprofits.

Just to the south, Community Foundation Silicon Valley has been improving the quality of life for people in Silicon Valley for more than 50 years. CFSV touches the lives of many, from the people who benefit from its grants to the people looking for the most efficient way to give back to their own community.

Created in 1954 with \$55,000 left in a war chest from World War II, CFSV today manages more than 650 individual, family and corporate funds, as well as nonprofit endowments. Much of CFSV's growth has come in the past 20 years. In 1990, assets totaled \$9 million, and today they exceed \$900 million.

Comparative Analysis

Total Assets:

PCF = \$630 million
CFSV = \$919 million

Unrestricted endowment:

PCF = \$125 million
CFSV = \$19 million

Funds:

PCF = 750
CFSV = 650

Total grant making (since founding/historically):

PCF = more than \$630 million
CFSV = \$590 million

Annual grant making:

PCF = \$92 million in 2005 (calendar year)
CFSV = \$101 million in FY 2006 (7/1/05-6/30/06)

Year founded:

PCF = 1964
CFSV = 1954

Like Silicon Valley itself, donors to CFSV are entrepreneurial and innovative. CFSV works with 25 corporations — the largest corporate-advised program of any community foundation in the country. Ten supporting foundations have been created and, as a result of these partnerships, more than 95 percent of its \$80 million in annual grant making comes from CFSV's advised funds and supporting foundations, each with its own charitable goals and priorities.

CFSV's innovations include hallmark programs like the Silicon Valley Social Venture Fund (commonly known as SV2), which has connected its 150 philanthropists with local community needs. CFSV is nationally known for its groundbreaking research on philanthropy and civic engagement.

Peninsula Community Foundation and Community Foundation Silicon Valley consistently rank among the top five community foundations nationally in new gifts and grant making. Both foundations are recognized for innovation and leadership

in philanthropy. Now, with new challenges and opportunities on the horizon, these foundations are poised once again to break new ground.

■ An Emerging Challenge

During the 1990s, Peninsula Community Foundation and Community Foundation Silicon Valley realized rapid growth, as the region's technology boom led to more donations. When the economy slowed, gifts leveled off and have yet to rebound to the record levels of the dot-com era.

The environment in which both foundations must operate is changing in other ways as well, presenting a new array of challenges.

Community foundations face increasing competition for donors in a newly-crowded field of philanthropic options. For-profit financial institutions like Fidelity and Schwab, for example, now offer charitable giving services that didn't exist a decade ago. Similarly, nonprofit organizations have created increasingly sophisticated alternatives to community foundations. PCF and CFSV already experience some overlap among donors and grantees.

Changes are also taking place in government regulation of the nonprofit field. Congress has considered revising the laws that regulate foundations and giving vehicles, including donor-advised funds, adding new complexity to the operations of the community foundations. The new foundation will be optimally positioned with the expertise to ensure compliance and navigate government requirements on behalf of its donors and grantees. Additionally, changes to the estate tax could change the landscape for planned gifts, the types of gifts that have traditionally created a legacy of philanthropy and built community endowments. The changing regulatory environment also creates new service needs for local nonprofits that look to CFSV and PCF as expert partners in planned giving, building endowments and managing complex donations.

“If they could execute well, I would give significant additional dollars.”

– Donor

The needs of donors are evolving, too. Many of the new donors now contributing to both PCF and CFSV seek more active engagement in the process, knowing that community knowledge is the unique value-add of community foundations. The growing number of donor-advised funds requires a highly-customized level of foundation service. And an increasing number of donors do not define themselves by the geographic region of Santa Clara and San Mateo counties and seek a level

of expertise and guidance to make a difference around the globe.

Technology — as in most fields — continues to grow in importance for foundations. Many donors want and expect more information and giving options to be available to them online, and they seek a greater level of customization in the information and services we provide online.

One challenge to both foundations is not new, yet it represents the most pressing challenge of all: the great need that coexists alongside the great wealth in our region. Of the more than three million residents of San Mateo and Santa Clara counties, more than 190,600 people live below the poverty line. Housing is not affordable for many local families, and home ownership continues to be out-of-reach for many. Many local students fail to receive an education that prepares them adequately

for the workforce or college. And the region's infrastructure is aging. Government funding still fails to provide adequate funding for programs ranging from social services to education and the arts.

“Go big or go home. Shared services and joint ventures are only incremental steps and will not be significant at achieving bigger scale impact.”

– Community Leader

In the tradition of Silicon Valley, PCF and CFSV believe that the challenges we face — whether competition, new constituent demands, or critical community issues — cannot be ignored, but rather must be embraced. The question, then, is how best should PCF and CFSV respond to these challenges?

■ Opportunity and Response

In the next 50 years in this country, an estimated \$41 trillion will be passed from one generation to the next, and about 9.5 percent of that is expected to be given to foundations. Based on previous trends, about a quarter of the gifts to foundations will go to those in California, and of that, about eight percent will go to community foundations.¹ This represents an unprecedented transfer of wealth to worthy causes, and a singular opportunity for organizations such as Peninsula Community Foundation and Community Foundation Silicon Valley.

To take advantage of this opportunity and to rise to the many challenges emerging over the next decade, the boards of directors for PCF and CFSV are moving to formally integrate their organizations to create a single, new community foundation: Silicon Valley Community Foundation.

PCF and CFSV have collaborated in the past on grants, projects and community research — and now, they are positioned to bring together the knowledge, talent, networks and best practices of PCF and CFSV under one roof. The newly integrated foundation would create what could be the third or fourth largest community foundation in the nation, with about \$1.5 billion in assets under management and 1,400 philanthropic funds.

“I care about the poorest of the poor, not geography. If this lets me reach more people, great!”

– Donor

But growing in size would mean little if we didn't become more effective. Silicon Valley Community Foundation will harness our combined strengths to better serve both nonprofits and donors. For fundholders, we will provide better, more personalized levels of assistance, expertise and resources so that Silicon Valley philanthropists can support the causes they care about locally, nationally and around the world. For our community partners, more resources will follow as the new foundation grows. The new foundation will be positioned to offer broader support and technical assistance to the nonprofits that provide health care for children and the elderly, food and shelter for the homeless, improved education for youth, stewardship of the environment, vibrant arts and cultural opportunities, and other needed services to our community.

In turn, the foundation will serve as a unique catalyst for social responsibility and civic engagement across the region.

1. World-class donor services

Both PCF and CFSV have long track records of partnering with families, individuals and corporations to manage and facilitate their philanthropy and connect them to community needs. The new Silicon Valley Community Foundation will build and improve upon this tradition of truly world-class donor engagement by:

- Inspiring the community to value giving and pass it on to future generations;
- Recruiting new individuals, families and corporations to give back;
- Connecting donors to the issues and causes they care about; and
- Providing opportunities for donors to learn, network, collaborate with each other — and leverage their philanthropic dollars.

Not surprisingly in this entrepreneurial region, many of our donors expect to be highly engaged in their philanthropy. They want personal service

and expert staffing to help them be strategic in connecting with the causes they care about and the needs in their communities.

The new foundation will feature the combined expertise of PCF and CFSV to provide better services to highly involved donors seeking opportunities to network and learn about important issues. The new foundation will:

- Provide expanded opportunities for donors to connect with the causes they care about, building on programs such as PCF’s Venture Van community tours and CFSV’s Philanthropy Incubator workshops;
- Make investments in new technologies for donors and fundholders, improving online grant making and access to fund information;
- Provide economies of scale for investment and asset management; and
- Improve services for managing complex donations and transactions.

Our donors also know that social issues cross geographic boundaries, and they hold different definitions of “community.” To some donors, community means their own neighborhood. To others, it is the town where they grew up. Still others see themselves as global citizens. Silicon Valley Community Foundation will meet donor partners where they are and support their personal definition of building community — locally, nationally and around the globe.

“Social issues don’t know county boundaries.”

- Philanthropic Expert

At the same time, the new foundation will retain its local presence in San Jose and San Mateo, and expand services to

supporting foundations and locally based funds. We recognize the important role played by smaller, more focused community funds. Both PCF and CFSV bring a successful track record partnering with community-based entities, such as those in Palo Alto, Gilroy and Los Altos, and the new foundation will continue encouraging philanthropy at all levels, both through existing channels and new partnerships.

In joining forces, CFSV and PCF can leverage each other’s strengths to serve new donors. Over the last five years, CFSV developed an expertise in identifying corporate-advised gifts and developing partnerships with supporting organizations. For its part, PCF has grown a significant unrestricted endowment of \$125 million that has fueled its local grant making and award winning initiatives. Operating together as Silicon Valley Community Foundation, we would take advantage of these complementary abilities, by expanding corporate-

advised gifts in San Mateo County and building the endowment in Santa Clara County. A healthy endowment is especially important, as it allows for the consistent distribution of grants to local organizations while creating leverage to bring others from government, public agencies, or private foundations to the table.

Many donors who partner with community foundations rely on the expert advice of professional advisors, and a significant percentage of advisors support integration and close collaboration of PCF and CFSV. According to a survey of advisers conducted this year at the direction of the PCF and CFSV boards:

- 33 percent of respondents would increase referrals if asset management were improved, and 31 percent if complex gift handling were improved (as anticipated following a merger); and
- 36 percent of respondents are likely to increase contributions to PCF and CFSV in the event of increased collaboration or full integration.

2. Improved program and grantee effectiveness

Of the more than 900 nonprofits in Santa Clara County and more than 400 in San Mateo County, each existing community foundation affects about 21 percent of those organizations on an annual basis. The new Silicon Valley Community Foundation will build on the combined experience of PCF and CFSV to improve overall support for the nonprofit community by providing:

- Deeper expertise in specific issue areas and the region;
- More opportunities for networking and technical assistance for grantees; and
- Increased overall financial support.

As the primary local funding source dedicated to serving the full-range of needs in both counties, the newly integrated foundation will bring additional community knowledge, relationships, and leadership to its work with grantees. Like many nonprofits, the foundation will now work more readily across geographic lines as needed. We will be better able to direct resources swiftly and strategically to address needs when unforeseen issues arise.

We will be positioned to convene individuals, ideas and dollars across the region to strategically address needs in our own community and beyond. We envision adding value to the nonprofit sector beyond grant dollars by providing hands-on leadership and technical assistance.

Our increased donor engagement services will enable the new foundation to connect more donors with community needs and, in the long run, increase support for local nonprofits.

“Dealing with both foundations [from a nonprofit perspective] is distracting.”

– Grantee

The new foundation, with its larger combined endowment, will also be able to use its discretionary funds to attract new money in support of foundation initiatives. Over the past 13 years, PCF seeded nine major program initiatives with \$7.7 million from its endowment — leading directly to another \$40.7 million in support from fundholders and other philanthropic entities, a five-fold increase in support from the initial investment. In San Jose, a \$10 million investment in the Mayfair Improvement Initiative (focused on a vulnerable East San Jose community) attracted another \$40 million in support from CFSV’s fundholders and other philanthropists. In this way, the new Silicon Valley Community Foundation will serve as a nonprofit research-and-development laboratory: investing in programs, sharing the results with fundholders, and engaging the community to go forward with support.

Finally, nonprofits will enjoy a simplification of the grants process following the adoption of a unified application and reporting form. They will have a single contact and one calendar for deadlines.

3. Increased Community Leadership

A region-wide community foundation will have the ability to provide leadership beyond engaging donors and making grants, by:

- Sharing knowledge, raising awareness and galvanizing support for issues of local concern;
- Replicating best practices across San Mateo and Santa Clara counties;
- Convening private and public sector leaders in our region to share ideas and identify solutions; and
- Initiating policy discussions on the county, state and national level.

Silicon Valley Community Foundation will have a large enough presence to be a true force in triggering social change through community leadership. We will become the “go to” resource for knowledge about community needs and strategic philanthropy and will be well positioned to take new ideas to scale regionally.

The new foundation will benefit from such successes as PCF’s Center for Venture Philanthropy, which recently launched a new initiative to reform the

broken foster care system in San Mateo County. CFSV has supported and worked with a number of grantees in the foster care space, including a three-year partnership with one organization through Silicon Valley Social Venture Fund. Similarly, in 2001 the Peninsula Partnership for Children, Youth and Families spearheaded a countywide effort to measure children’s readiness to enter kindergarten, which became a model for the Santa Clara Partnership for School Readiness and resulted in a joint, bi-country report in 2006. Together, the new foundation could take these kinds of initiatives region-wide and affect change on a broader scale on behalf of our children and youth.

Following this model, the new Silicon Valley Community Foundation will be positioned to lead a dialogue on regional issues such as traffic congestion and transportation, cost of living, housing, insurance costs, disparity of wealth and building cultural awareness.

4. Enhanced Operational Efficiency

The integration of PCF and CFSV will result in efficiencies in scale and scope that will enable the new foundation to compete and serve its constituencies more effectively in an increasingly competitive environment. In particular, the creation of a single, new foundation is expected to eliminate duplicative expenditures and improve the effectiveness of information technologies, marketing, investment management and grantee management.

Given the demands and changes in the philanthropy services field, both foundations would be forced to make significant investments on their own in new technologies and marketing efforts in the years ahead to remain ahead of the curve in providing easy, efficient services to donors and grantees. These investments will be maximized when made by one organization, resulting ultimately in improved performance for donors and grantees and, most of all, greater social impact.

■ The Process So Far

The full integration of PCF and CFSV is a major step, and it is moving forward only after careful deliberation by the governing boards for both foundations.

The concept of full integration between PCF and CFSV is not new. The idea was first seriously discussed by board members more than 15 years ago, and was explored again in depth as recently as 2004.

Following the departure of PCF’s former Chief

Executive Officer Sterling Speirn at the end of 2005, and the planned retirement of CFSV's President Peter Hero in 2008, the boards believed the time was right to pursue the concept of closer collaboration again. In early 2006, the boards of the two foundations identified key challenges for the future and decided to take a serious look at how they could work more collaboratively and reduce counterproductive competition — from joint grant programs and shared office services, to becoming one foundation.

“Having two community foundations disperses the impact, because at the end of the day, they are doing the same things. Two competing community foundations create the likelihood neither will thrive.”

— Donor

As part of the process, the two boards commissioned a McKinsey & Company study, sponsored by a consortium of local foundations, to carefully weigh the benefit versus the risk of these options. The study considered the feedback from

interviews with more than 90 donors, grantees, community leaders, board members and staff, and surveys conducted with more than 60 professional advisors. Board members reviewed reports from grantees from both foundations on their grant and foundation relationship satisfaction. They also examined geographic overlap, financial data, business models and program offerings.

■ Creating a New Foundation Together

The process of deliberation and due diligence is not over. With the help of staff and outside experts including donors, nonprofits, community leaders and attorneys, both boards continue to carefully consider the many decisions that must be made to integrate the two foundations successfully.

Strong leadership and execution are critical to the success of the merger. The new Silicon Valley Community Foundation has its own governing board of directors, with inaugural members drawn from the existing CFSV and PCF boards and additional members to be added. Current CFSV Chair Greg Avis will serve as the foundation's first chair. PCF Chair Patricia Bresee will serve as the first vice chair, and then serve as chair for the subsequent year. Additional members of the board for the new foundation are: Laura Arrillaga, Gloria Brown, Caretha Coleman, Debra Engel, Greg Gallo, Naren Gupta, Chip Huggins, Susan M. Hyatt, Bill Johnson, E. Richard Jones, Jennifer Raiser, John M. Sobrato, Richard Wilkolaski, Erika Williams, Jane Williams and Anne Yamamoto.

After a thoughtful and comprehensive nationwide search, on August 2 the board announced the

appointment of one of the nation's leading nonprofit executives, Emmett Carson, PhD., to lead the new foundation. Currently CEO and President of The Minneapolis Foundation and a nationally recognized leader in the field of philanthropy, Carson will assume his new role beginning November 1. Once Carson begins work, a more detailed integration plan and management process will be put in place, pending approval of the tax status by the state Attorney General and the IRS.

At present, Community Foundation Silicon Valley remains under the leadership of President Peter Hero, and Vera Bennett serves as interim CEO and CFO of Peninsula Community Foundation. Hero will continue in a senior leadership role at the new foundation, continuing the tradition of philanthropy that he has built over the past 18 years at CFSV and working to bring together the best of both organizations and build a community foundation for the future.

We have set for ourselves a high bar: to improve upon the already successful in order to stay one step ahead of change. To succeed, we now rely on the people and organizations affected by the course we have set to share their thoughts with us and help shape the new foundation.

In the coming weeks and months, both foundations will continue to gather input from donors, nonprofits, professional advisors and community leaders. Implicit in these efforts is our ongoing, institutional commitment to keep the “community” in the new Silicon Valley Community Foundation — in practice, not just in name. We look forward to hearing from you.

Updated 8/15/06

Unless otherwise noted, all quotes taken from interviews conducted in 2006 in a study sponsored by PCF and CFSV

¹ Source: Paul Schervish and John Havens, Boston College (<http://www.bc.edu/research/swri/features/wealth/>)

Unless otherwise noted, data provided by Peninsula Community Foundation and Community Foundation Silicon Valley.

Peninsula Community Foundation is a registered trademark; Peninsula Partnership for Children Youth and Families, Center for Venture Philanthropy and Venture Van are trademarks of Peninsula Community Foundation.

To: Community Foundation Silicon Valley Board
Peninsula Community Foundation Board

From: Greg Avis, Community Foundation Silicon Valley Board Chair
Patricia Bresee, Peninsula Community Foundation Board Chair

Date: July 12, 2006

Memorandum of Understanding

INTRODUCTION

This Memorandum of Understanding (MOU) lays out the key issues considered and key decisions made by the joint Community Foundation Silicon Valley (CFSV) and Peninsula Community Foundation (PCF) negotiating committee (a subset of the steering committee appointed by the CFSV and PCF Boards). Approval of this MOU by the CFSV and PCF Boards indicates support for ongoing merger negotiations. The negotiating committee is not asking for approval of a merger at this time. However, approval of this MOU should be viewed as a commitment to proceed along the terms outlined in this document. The merger is subject to the Boards' satisfaction with due diligence, to the IRS' recognition of the new foundation's tax-exempt charitable status and appropriate notice to the Attorney General of the pending merger as required by law, and to each Board's approval of the merger, which is expected to take place before the end of 2006.

THE OPPORTUNITY

Silicon Valley is a world-renowned incubator for innovation and breakthrough ideas. This entrepreneurial spirit is expressed in the tradition of generosity and philanthropy that has led thousands of donors to partner with CFSV and PCF. But the philanthropic landscape is changing – from new government regulations and external competition, to the overall growth and complexity of philanthropy around the globe. CFSV and PCF have a unique opportunity to act now to ensure that in 50 years they are still among the nation's leading centers for philanthropy and the leading community-based grantmakers in San Mateo and Santa Clara Counties.

The proposed merger will bring together the knowledge, talent, networks, and best practices of both foundations into one philanthropic center serving the Peninsula and Silicon Valley. The new foundation will provide world-class services and support to donors and nonprofits, and inspire greater civic participation in the region.

Blending the strengths of both foundations, the new entity has the potential to operate

more effectively and create more of an impact than CFSV and PCF could create alone. The combined foundation will provide a broader and more compelling offering of programs, and increased expertise and knowledge, based on greater specialization. Both CFSV and PCF have launched successful programs in the past, and together they will continue to grow their expertise and develop new solutions to solve community issues. The merger will also create efficiencies that will position the new foundation to compete and serve its constituencies more effectively in today's increasingly competitive environment.

STRUCTURE OF THE TRANSACTION

This is a merger of equals and as such CFSV and PCF will merge into a new entity. Details of the overall timeline and transition in governance follow in a subsequent section on "Merger timeline and key milestones".

NAME

Upon careful consideration and with input from staff, we have proposed the name of the new organization to be "Silicon Valley Community Foundation". Further, we propose to use a tagline of "Serving all of San Mateo and Santa Clara Counties."

BOARD COMPOSITION

Several key decisions have been made regarding Board governance:

- **Role of Board.** The Board will: (1) shape mission and strategic direction of the new entity; (2) ensure leadership and resources and (3) monitor and improve performance of the new organization and the Board.
- **Size of Board.** The Board will initially consist of 18 Board members. The maximum Board size will be restricted to 25.
- **Composition of new Board.** Our goal is that over time, one-third of the new Board members will come from CFSV's current Board, another one-third will come from PCF's current Board, and the remaining directors will be people who are not currently serving on either Board. Initially, we propose to start with an equal number of board members, nine, from each of the current Boards and at least one non-affiliated Board member. Board terms will be staggered for a few Board members in order to drive towards an equally balanced mix with non-affiliated Board members over two to three years. In addition, we will work aggressively to ensure that the new Board will have a healthy, diverse mix of skills and backgrounds.
- **Process of selecting initial Board members.** We will start the process of selecting the new Board members by soliciting interest from existing Board members and creating

a shortlist of potential new Board members. The existing CFSV and PCF Boards will take a final vote on the entire slate of interested Board members. The goal is to identify nine new Board members from CFSV and nine new Board members from PCF for the first year of operation. The Directors then in office will elect successor Directors. Our intention is to seek a new Board that will reflect the geographic, racial, ethnic, cultural and experiential diversity of the region.

- **Director term length.** Directors will be elected for terms of four years, with a limit of two consecutive terms. Initial Director terms will be staggered to provide for continuity.
- **Committee structure.** We anticipate that the new Board will have several Board committees. There will be a Transition committee appointed by the Board that will be a temporary committee to drive the integration. There will be a number of standing committees such as Audit, Finance and Administration, Investment Management, Nominations and Governance, Programs and Special Initiatives and Marketing and Donor Outreach.

The Board of Directors will appoint committee members. Committees may include Board members, Advisory Board members, and members of the general community, as the Board may determine. During the first year, committee chairs will be equally split between Board members coming from CFSV and PCF.

- **Board chair.** The initial chair and vice chair of the new Board will serve terms of one year. Greg Avis will serve as initial chair until December 31, 2007. Patricia Bresee will serve as initial vice chair until December 31, 2007 and then serve as chair for the subsequent year. The new Board will elect a vice chair to succeed Patricia Bresee, to serve a term of one year. At the end of the first two years, the new Board will elect a new Board chair and vice chair. From that point and going forward, officers will be elected for terms of two years and may serve no more than two consecutive terms.
- **Advisory Board.** We expect the new organization to have an Advisory Board comprised of donors, experts and community advocates. The new Board will invite people to serve on the Advisory Board for terms to be determined. The Advisory Board will meet at least twice a year and will be chaired by a member of the Board of Directors. Members of the Advisory Board may be invited to serve on advisory committees to the new Board of Directors.

KEY DECISION ABOUT MANAGEMENT

A new CEO will be hired to lead the new organization. We are working to ensure that the new CEO will possess the following attributes:

- Visionary leader: Catalytic and inspirational individual who is experienced in philanthropy and excels at both sides – fundraising and being a community advocate
- Strong manager: Individual with ability to manage an organization with over a billion

dollars in assets and a corresponding professional staff

- Integrator: Given the near-term imperative of consolidating the two organizations, an individual who can drive consolidation without disrupting donor or grantee interactions while integrating the cultures and launching initiatives to grow the foundation

We have retained Russell Reynolds Associates to support the search effort and have considered over 100 potential candidates before narrowing our search to a final three candidates. We are anticipating a final decision on the CEO candidate and the extension of an offer by the end of July.

LOCATIONS

In an effort to establish a common culture and realize the full potential of the merged organizations, the new organization will have a centrally located office, most likely in Palo Alto or East Palo Alto, and regional offices in San Mateo and San Jose. The central hub will consist of the heads of all functions (e.g., CEO, donor relations, grantmaking, communications and marketing, etc.) as well as all back-office functions (e.g., finance, HR, IT, etc.). The two regional offices will house targeted donor, grantee and community-relations staff. In addition, we expect to maintain existing or expanded conference facilities available to the community at each of the locations.

ENDOWMENT ALLOCATION

Currently, PCF's unrestricted endowment is approximately \$125 million and CFSV's is \$19 million. While these foundations overlap geographically in funding, for endowment grants, PCF's primary focus is San Mateo County while CFSV's primary focus is Santa Clara County.

The Board will ensure that all prior restrictions on donations (geographical, field of interest or issue-based) will be honored. A minimum of \$5 million per year of grants from the endowment will be allocated for programs primarily benefiting residents of San Mateo County. (The Board may, of course, approve grants for this purpose that exceed the minimum.) However, if the endowment returns are negative, the \$5 million minimum allocation will be scaled back proportionately. This arrangement is intended to last for five years, subject to review by the new Board in three years, with any change approved by two-thirds of the new Board.

After the merger is consummated, new endowment donations will go to the new foundation and benefit both counties. Grants from endowment will be made using a grantmaking process that combines the best of the processes currently used by CFSV and PCF, based on the new foundation's mission and strategic objectives. However, individual donors will continue to have the option to focus their donations on specific issues, interests, or geographies subject to IRS guidelines and requirements.

The Steering Committee, staff, and funders have already confirmed financial commitments

and are working on others to provide additional discretionary funding to the new foundation. An anonymous donor has committed \$3 million for discretionary grant making throughout the entire region.

INTEGRATION COSTS

The merger of the two foundations will result in integration costs that are being carefully examined, and are anticipated to be \$5 million over three years. The major components of these integration costs, that could be spread over the three years, include: real estate, employment-related costs of the merger, marketing/branding, IT/telecom, consulting support, and legal. We expect these integration expenses to be covered by external funding resources contributed specifically for this purpose.

FEE STRUCTURE

Fees on funds at the two current foundations (both existing and added contributions) will continue to be under the fee structure of each foundation until the funds are transferred to the new entity. The new foundation staff will begin immediately to review the competitive landscape for different types of funds to determine a new fee structure and is committed to having a new, competitive fee structure defined by the time the merger is effective.

INVESTMENT MANAGEMENT

The CEO, investment committee and management team will address differences in investment options and philosophies of CFSV and PCF and establish investment options for the new foundation. We expect to complete this work by the end of 2007. Until that time, donors to the new foundation will have access to the current investment options of both CFSV and PCF.

DUE DILIGENCE

Both Boards have appointed legal counsels and auditors to perform due diligence, with guidance from one Board member from each side. The due diligence will focus on the last two years of operations of the two foundations. Each of the Boards will review the due diligence results before approving the merger.

FISCAL YEAR FOR NEW FOUNDATION

The fiscal year for the new foundation will run from January through December.

OTHER CONSIDERATIONS

A wide range of additional decisions remain to be made. We have done research to ensure that these decisions and resulting trade-offs are not deal breakers but we will leave final decision-making to the new Board, new CEO and management team. We expect that these issues will be addressed as part of integration planning:

- **HR guidelines:** There is additional work the management team and board will need to do in aligning the HR policies and practices of the two organizations and in ensuring the establishment of a productive, healthy culture in the go-forward foundation. We anticipate HR, the establishment of a healthy culture and change management to be significant areas of focus in the integration planning and execution and a major area of focus for the new CEO.
- **Ongoing operating budget:** We will need to work out a detailed operating budget for the new entity in its first year and beyond.
- **Program/issue area of focus:** While there is significant overlap in the issue areas that the two foundations focus on, the board and management team will need to spend significant time determining the go-forward areas of focus and grant-making strategies to drive maximum social impact across Santa Clara and San Mateo counties.
- **Communications/branding/marketing:** We realize that internal and external communications will be critical in the execution of the merger. A plan for driving effective communications with all constituencies of CFSV, PCF and the new organization, before and after the merger will be developed and implemented.
- **Working together before closing of the merger:** In addition, the two foundation staffs and Boards will work together during the period between now and the closing on substantial new agreements or commitments continuing beyond the closing of the merger.

MERGER TIMELINE AND KEY MILESTONES

Exhibit 1 lays out the overall timeline for the merger. We will aggressively manage the timeline to make sure that the new entity is in effect to receive gifts by fiscal year end in December 2006. Based on this end goal, the anticipated key milestones are:

- Approval of the MOU (July 12, 2006)
- New Board formed with members from CFSV and PCF Boards (mid-July)
- New CEO offer made (mid- to end- July)
- Approval of the Agreement of Merger and Reorganization Agreement by CFSV and PCF Boards (mid-October)

Our expectation, subject to IRS ruling on tax exemption, is that the merger will be effective on

or before December 31, 2006. A plan will be formulated to handle the logistics of donations made after the MOU approval, but before the closing of the merger.

Based on this timeline, it is anticipated that there will be three Boards co-existing from around mid-July to early November. During this time, CFSV and PCF Board members will continue to discharge their current roles and uphold their fiduciary responsibilities. Once the merger is effective, CFSV and PCF will cease to exist and at that point their Boards will be dissolved.

Exhibit 1

PRELIMINARY OVERALL MERGER TIMELINE

7/12 MOU approved by CFSV and PCF Boards; new Board members designated; Articles of Incorporation approved	Bylaws finalized and Action of Incorporators signed	New CEO offer made	August through October Community outreach	Integration planning begins	CFSV and PCF boards review due diligence result; review "Reorganization Agreement"	AG notified
June	July	August	September	October	November	
6/14 Due diligence begins	6/23 and 6/28 CFSV and PCF Board meetings to review MOU	External board member selected	Tax exemption filed with IRS and CA FTB	New CEO joins	CFSV and PCF boards approve "Reorganization Agreement" and "Agreement of Merger"	"Agreement of Merger" filed with CA Secretary of State


Note: Above timeline is contingent on obtaining expedited IRS ruling on exemption status
Source: Silk, Adler & Colvin; McKinsey analysis

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This Memorandum of Understanding is hereby accepted and agreed as of the first date written above.

ACCEPTED AND AGREED:

**COMMUNITY FOUNDATION
SILICON VALLEY**

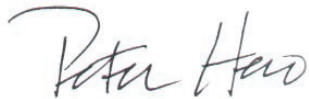


Gregory Avis, Chair

PENINSULA COMMUNITY FOUNDATION



Patricia Bresee, Chair



Peter Hero, Executive Director



Vera Bennett, Acting Executive Director