

TRUSTS

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ital gains tax and you'd only get to reinvest [the remaining] 65 percent," Brown says. "With a charitable remainder trust, you get to reinvest 100 percent of it because you've avoided the tax. The other advantage is that during your lifetime you get an immediate income tax deduction for that future interest that's going to pass to charity."

The amount of money that typically is involved in this type of activity is significant. A unitrust, Brown says, is usually hundreds of thousands of dollars. Such a large gift can go a long way toward helping a charitable organization meet its annual funding goals. Most universities, for example, have development officers focusing on planned giving through vehicles such as unitrusts.

While some people may see this as a way of beating taxes rather than supporting charitable work, Morris Weisner, president of Ininet Advisory Inc., a Durham-based estate planning and financial consulting company, thinks such ideas are a misreading of how charitable giving works.

"By and large most of these trusts are set up for a combination of donor intent and financial reasons," he says.

While banks and other financial institutions typically have had trust departments, the 1969 Tax Reform Act helped spur many financial institutions to create departments just to handle this area of business. Wachovia was one of the first out of the gate, forming its charitable trust division in 1975, with five people assigned to that area in North Carolina. Today, the bank employs 38 people in North Carolina, South Carolina and Georgia specifically working on charitable trusts.

NationsBank, which formed its charitable trust division in 1993, has 15 trust employees working in Dallas, Charlotte and Richmond, Va. First Union, which formed its charitable services division in 1994, employs nine people and does business in six states and the District of Columbia.

The function and responsibility of charitable services divisions can vary considerably. Some institutions, like Ininet, specialize in estate planning services for individuals. Others specialize in services for the charitable organization itself. Many organizations provide services to both.

For example, NationsBank has set up a division to work only with charitable organizations.

North Carolina Trust, a state-chartered bank that is permitted to provide trust service only, offers money management and other fiduciary services to individuals and organizations.

"We may be working for an individual who actually has charitable remainder trust or maybe an organization that has hundreds of charitable trusts," says Sue Cole, the company's executive vice president. "We've seen a trend lately where lots of organizations want to outsource the administration and investment management, so we're actually working for the organization providing these services and helping them communicate with their donor."

Charitable trusts - and the greater focus on planned giving and trust services - are also being used by nonprofits to increase giving opportunities for donors.

"It can be a wonderful vehicle for the Salvation Army, for religious groups, for the different conferences that churches have," says Cole. "It can be used in family and children's services, those kinds of agencies. It really has no limitation as it relates to a specific organization, provided that they have someone on staff who understands it well enough to work with it."

And that can be the clincher for some groups. While the new charitable trust vehicles are creating possibilities for funding charitable causes, it is a highly complex and technical area, and one that requires a charitable organization to look beyond its day-to-day finances and plan ahead.

"Many of the nonprofits only have current funds and they're raising money from year to year, so they generally do not have long-term funds to manage," says Dreama Gasaway, vice

president and senior administrator in foundations and management for NationsBank.

However, charitable trust experts say they are beginning to see more nonprofits moving in this direction.

"A lot of established charities that would be like household words are at this point not looking only at their day-to-day existence and just funding for current needs, but they're developing programs in which they need assistance and guidance and we have been able to help them," says Carol Nuckolls, NationsBank's senior vice president and national product manager for foundations and endowments.

Because of the increased awareness about charitable giving among charitable organizations and the amount of money involved, many financial institutions are developing comprehensive marketing strategies, including hiring sales people to concentrate just on this area, as a way of attracting new business.

In 1993, the Southeast alone had about \$22.7 billion under management with foundations. Numbers like that, as well as the proliferation of nonprofits and new foundations in the region, are expected to escalate competition among banks and trust companies.

"As we look to the future, nonprofits are becoming more and more sophisticated about investment service providers," says Joyce Adger, Wachovia's senior vice president and manager of North Carolina charitable funds. "As the nonprofit market grows, one of the challenges will be to introduce products that maybe hadn't been thought about."

Some experts believe that increased awareness of charitable trusts could have a strong impact on how charitable giving is done.

"We call this social capital, and this voluntary philanthropy is you voting your social capital," says Weisner of Ininet in Durham. "And for you to vote your social capital, we think the benefits could be tremendous. I mean, I think you're talking about lifting the standard of living of this country tremendously."

accepted last month and Goodmon is also leaving as board chairman.

- Who will handle Smart Start fundraising. Judy Harrison Barry, the state partnership's outgoing fundraising director, has recommended that Raleigh-based Capital Consortium Inc. be hired to coordinate fundraising plans for the local partnerships. The firm is already working with local Smart Start groups as part of a planning grant from the A.J. Fletcher Foundation in Raleigh. Barry also suggested formation of "Children's Cabinets" in local areas to assess private financial resources and avoid competition between Smart Start counties.

- How services that the state Department of Human Resources had been providing to Smart Start will be provided in the future. That issue was among the main topics of discussion at a state partnership board meeting in July. Peter Leousis, who heads the Office of Policy Development and Research in the Human Resources Department, says that providing technical assistance in the form of monitoring service contracts is going to be among the most critical functions the state partnership will need to replace.

Smart Start leaders have varying opinions as to whether the political debate over the program could have been avoided.

"I think that depends on your philosophy of politics," says Zalkind of

the Rocky Mount partnership. "I think it certainly was avoidable if people stuck to the facts - if people had put politics aside and were open enough to look at the data."

Michelle Rivest of the Orange County Partnership for Children says arguments over funding for the program were the result of last fall's elections, which put many new Republican lawmakers in charge of the state House.

"They had a different agenda, which included cutting back on government expenditures," Rivest says. "They did not have a sense of ownership of Smart Start nor do they agree with its purposes."

Goodmon, who is a Republican, views the legislative wrangling as a natural outgrowth of the way Smart Start was organized. "I don't think there is any more difficult way to do anything than how we are doing Smart Start," he says. "That's why it's so good: You have to get everybody at the table."

Local partnership leaders say that in the future, they will work to stay focused on the program rather than the politics. The bottom line is that they have come too far with Smart Start to turn back now.

"If this [state] money dries up tomorrow, we will still be here working on improving things for children," Zalkind says.

SMART

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doesn't actually remove some of that."

One example cited by Zalkind of the Rocky Mount partnership is the plan's call for competitive bidding for Smart Start service contracts.

"That's an abrupt change from a collaborative process where local people came together to decide how best to proceed and contracts went on in a noncompetitive way," she says. "That is one decision-making style and that was really key in my mind. To then mandate that people use a competitive style has the potential to undermine one of the real cornerstones of Smart Start."

By contrast, House Speaker Daughtry sees no contradiction between state oversight and local control of Smart Start.

"Smart Start is not like buying a building," he says. "It's different in every county and not every county is doing well. We felt oversight of the program was missing. We're very happy with what we came up with [in the General Assembly]. We think everybody won."

Among the questions left unresolved by the political debate over Smart Start are:

- How the state partnership will be reconfigured and who will be at the helm. Shepherd's resignation was



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