Rural
RESEARCH REPORT

Winter 2007
Volume 18, Issue 9

Published by the Illinois Institute for Rural Affairs

Stipes Hall 518
Western Illinois University
1 University Circle
Macomb, IL 61455-1390
309/298-2237

www.IIRA.org

Creating Philanthropy Initiatives to Enhance Community Vitality

Mark A. Edelman, Ph.D., and Sandra Charvat Burke[1]

Many community leaders are interested in exploring strategies for attracting intergenerational wealth transfer and philanthropy initiatives that channel reinvestment into community foundations, endowments, and other philanthropic mechanisms for sustaining assets critical to community vitality. Do successful models for doing so exist? If so, can they be replicated? This report examines key concepts, best practices, and steps that can help motivate community leaders and enhance community vitality.

Defining Community Vitality

The term *community vitality* is broadly defined and holistic. In general, the presumption is that higher levels of community vitality exist when a vibrant private business sector is augmented by active public and private nonprofit sectors that support businesses, empower social institutions, and enhance quality of life. Rural communities are diverse, and many factors help to explain the levels of local vitality. When vitality is missing in the economic base or in the government and nonprofit sectors, the odds of having community vitality are lower since each sector plays an important, interconnected role in the vitality of all local sectors.

Effective Local Philanthropy Institutions Supporting Vitality

Several factors are involved in creating effective local philanthropic institutions. This section highlights several relationships between philanthropy institutions and community vitality.

Awareness of the Local Philanthropic Opportunities. Until several years ago, few rural community leaders were aware of the potential impacts of developing local philanthropy institutions, networks, and culture. The implications of national studies (Havens and Schervish 1999, 2003) on the wealth expected to transfer during the first half of the 21st century were recognized by states such as Nebraska and Minnesota. They estimated the amount of wealth being transferred from one generation to the next and the implications of only a small fraction being attracted to community reinvestment in critical local assets.

Using probated estates as a proxy, the Community Vitality Center at Iowa State University (Burke and Edelman 2004) found that wealth transfer among Iowa counties ranged from less than $10 million to nearly $500 million per year with an average county experiencing a transfer of about $50 million per year. A foundation that attracts five percent of the wealth would mean an extra $2.5 million in annual revenues for the average county to augment resources for the public and nonprofit sectors. Obviously, as tax dollars tighten, community leaders become increasingly interested in non-tax sources of revenue.

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[1]Authors are director and senior researcher for the Community Vitality Center and professor of Economics and extension economist at Iowa State University. They conducted the Iowa Wealth Transfer Study and collaborated with others to organize numerous activities during the development of Endow Iowa and County Endowment Fund programs.

Local Philanthropy Board and Staff Effectiveness. Prior to recent interest in developing rural philanthropy, most rural community foundations were relatively dormant institutions that periodically came alive to serve as fiscal agents for major community fundraising initiatives. Many traditional community foundations missed the point of the wealth transfer studies and the connection between estate planning and live donors who might be making estate planning decisions or contemplating bequests and, thus, making a difference in sustaining local institutions.

One local development board recently lamented a case where a multimillion dollar gift was given to an institution two hours away by a local retired teacher who had donated all of her free time to a local cause for two decades. No one locally was aware of her wealth and, consequently, no one asked her if she would want to leave a legacy to the cause she cared so deeply about (Edelman and Burke 2004).

Major philanthropic donations and bequests often do not just happen. University foundations have created well-developed strategies for maintaining communications and relationships with alumni and friends, for ratcheting up annual donations, for making personal contact, for maintaining database information on potential donors, and for providing assistance to key potential donors and their estate planners and financial advisors. Successful programs match the professional fundraising expertise of the staff with the strategic priorities of the institution and the interests of the wealth holders embodied in the networks of foundation board members and institutional stakeholders.

Many of the same principles apply to creating effective local community foundations. Like many rural community institutions, however, the foundations typically rely on volunteer board members with limited access to professional staff unless they hire fundraising consultants or are linked to emerging regional or statewide foundations.

Some communities use part-time staff with previous fundraising experience to develop and implement a local philanthropy plan. This approach is rational when the expected increase in donations and endowment spending more than covers the added costs. However, when first starting out, a foundation often has no staff. Responsibility for implementing a local philanthropy plan and making donor contacts can rest with volunteer board members who have limits on their time. Board member comfort and confidence can be enhanced by workshops on best practices, role playing exercises, and partnering with those who are more experienced.

Recognition of Donors, Philanthropy Successes, and Endowment Impacts. The old adage about "success breeding more success" rings true for philanthropy. Local media can play an important role in capturing the stories about donors making contributions that make a real difference in the lives of others. Philanthropy professionals suggest that most people want to give something back to their hometowns or to others in positions that they themselves formerly held. Stories can explain how endowments provide a growing level of spending support in perpetuity. Stories can paint a picture of the problems solved and people impacted by an annual grant program. Capturing the imagination of local residents with success stories about those who left a legacy for public benefit creates a pathway for the ideas of others to follow.

Endowments are a unique tool for attracting wealth transfer because they provide annual support in perpetuity. With an endowment, donations are invested by professional managers in accordance with the policies of the foundation. A limited amount of the endowment earnings become annually available for grants, and some of the earnings go to cover administrative expenses. The rest of the funds are reinvested so that the endowment grows over time, providing an increasing level of annual grant support.

Community foundations of sufficient size often promote endowment building initiatives. Many foundations strive for a minimum portfolio of $15 million in investment. With typical administrative fees set at one percent, an operating budget of $150,000 is generated for the foundation. Having local institutional capacity to build permanent endowments represents an important attribute for the potential to enhance community vitality.

To understand the economic power of building permanent endowments, consider a hypothetical example of setting up a new endowment that receives a $100,000 gift annually for a ten-year period (Table 1). This example assumes that economies of size and professional portfolio management allow the community foundation to achieve nine percent earnings over the long run. The donor contributions total $1 million and are discontinued after ten years; however, the endowment continues to grow and, in fact, more than doubles in less than 30 years.

With a regulated spend rate for the endowment set at five percent, $57,319 would be available annually for local grants after the first ten years. This annual amount would grow to more than $103,525 within 30 years because three percent of the earnings are annually reinvested to grow the endowment. In this example, the endowment concept becomes a powerful tool to allow philanthropic entities to show potential donors how their bequest will become a permanent legacy that can continue to grow and support their favorite public purpose or charitable cause.

Table 1. Mechanics of a Permanent Endowment*

Total Gifts ($100,000/year/10 years)	*=*	*$1,000,000*
Grant Spending per Year (@ 5% Annual Rate)		
in 10 years	=	$57,319
in 20 years	=	$77,032
in 30 years	=	$103,525
Total Endowment (@ 3% Reinvestment Rate)		
in 10 years	=	$1,180,780
in 20 years	=	$1,586,869
in 30 years	=	$2,132,619

*Assumes community foundation endowment management yields 9% annual earnings long term, which allows 1% for administrative expense, 3% for reinvestment in endowment growth, and 5% for grants.

Source: Edelman and Burke 2007, Table 1

The Role of Key Legal and Financial Advisors. Attorneys, accountants, and financial advisors often play a key role in assisting and advising wealthy people as well as people of more modest means when these clients create plans to dispose of their wealth and personal assets after death. A professional legal or financial advisor will not want to violate any professional standards or expectations for objectivity and provision of the best advice that an advisor can offer. On the other hand, a given client may expect a trusted legal or financial advisor to be familiar with the major local institutional networks for effectively leaving a legacy that accomplishes the personal objectives of the client.

Most people desire to leave a substantial portion of their estate to their children and families. However, as the society becomes more affluent, an increasing number of people conclude that they have sufficient wealth to leave a philanthropic legacy in addition to safely providing for their children and families. As the local culture for philanthropy grows in a community, more clients will likely express a desire or an interest in leaving a gift to help sustain local legacies that benefit the community.

Local philanthropic entities should not expect legal and financial advisors to provide clients with preferential guidance on donations. Nevertheless, they can and should expect legal and financial counselors to be familiar with local philanthropy contacts, purposes, mechanisms, priorities, and other information to respond appropriately when clients express an interest to their advisors. Advisors must know enough about local philanthropy entities to be able to suggest how client goals might be accomplished and to be able to retrieve additional information from local foundations and donation recipients.

Legal or financial advisors and local philanthropy representatives perform different roles. To be effective, each may need to know a great deal about the nature and scope of local activities occurring in the other profession. One best practice strategy often recommended by philanthropy professionals is for local organizations to organize an annual affair in the form of a luncheon or workshops. Legal and financial advisors become more familiar with local philanthropy professionals, institutions, priorities, and success stories. Sometimes at these events, experts present updates on tax laws, estate planning, charitable donations, and gift laws.

Collaboration with Other Local Philanthropic Networks. Another important element in stimulating community vitality requires the ability of local philanthropy institutions to work together. The potential for maximizing successful donor contact by local entities may improve with specialization and coordination of the various philanthropic entities in the area. For example, schools possess an inherent advantage in maintaining alumni communications. Hospitals also can maintain close contact with those who are helped and comforted during illness. Many other sector-specific philanthropic entities have affiliated groups—such as conservation boards, youth sports alumni, or human service benefactors—that may develop into their own specialized donor networks.

Community foundations, on the other hand, have an ability to promote themselves as “pass through” rather than “give to” entities. These foundations often specialize in assisting with wealth transfer decisions, endowment management, grant project due diligence, and investment portfolio management. Community foundations often earn a higher rate of return for the nonprofits and charitable causes that use their services. Some school foundations and other special-purpose philanthropic entities organize as committees affiliated with a community foundation to reduce overhead costs, improve returns, and access expertise.

With a multitude of needs and multiple institutions interested in philanthropy in a given community, there is some risk of duplication in donor contacts by local entities promoting competitive initiatives. Coordination among local philanthropic entities may represent a best practice as many donors typically know the gifting priorities they wish to make and may not want to be bombarded by a deluge of philanthropic inquiries.

An example of a collaborative activity is for all local philanthropic entities to work together in annually organizing a philanthropic awards banquet to recognize donors, announce philanthropic progress made during the year, and inform the public about the community impacts and outcomes from the grants and initiatives of local philanthropic efforts.

Tapping Wealth Transfer Versus Annual Donations. Traditional community fundraising efforts typically involve annual fund drives or large periodic fund drives for significant community capital projects. United Way agencies, for example, often depend on annual fund drives to support their operating budgets. Capital campaigns for a hospital expansion, school addition, or church or community center typically involve hiring a fundraising consultant. Both of these initiatives are more traditional in rural communities compared with estate planning and endowment building efforts. Challenge grants and incentives for annual gifts or capital drives can miss tapping into the wealth transfer decisions of people when they are making estate planning decisions.

In presenting information on local wealth transfer, philanthropic professionals often ask local leaders and members of civic groups whether they annually make contributions to charitable causes in their community. Typically, about 80 percent of such audiences will say that they do (Edelman and Burke 2007). A key follow-up question is to then ask whether they have written any of these same charitable causes into their wills. The typical response is that 10 percent or less have made a charitable bequest provision in their wills. Something important for audience members to consider is why and whether personal philanthropic priorities should change between their life giving practices and their planned estate giving. Feedback may help local leaders gauge whether there is opportunity for enhancing the local philanthropic culture.

Reinvesting in Economic Vitality Is Different. Many traditional community philanthropic entities have focused charitable efforts toward poverty and human services; youth and education; seniors and health services; and natural resources, recreation, and quality of life. Programs that may benefit small business development, entrepreneurship, and economic development are often avoided even though they may be critical for sustaining community vitality. Why? Special legal issues and due diligence are involved in pursuing philanthropy that supports economic development and entrepreneurship.

Due to the nature of IRS rules regarding charitable contributions and benefits that may accrue to for-profit firms, additional resources and expertise are often required to develop model programs and templates that local entities can use to remain compliant with IRS rules (Molinaro 2006). Using charitable donations for entrepreneurial education activities appears to be broadly eligible; however, targeted lending programs and program-related investment that benefit for-profit firms must demonstrate compliance within the eligible charitable and public purposes.

Local philanthropy entities may be advised by attorneys and accountants to avoid certain grants or innovative initiatives benefiting businesses so as to not risk tax-exempt status. Without templates from other foundations in IRS compliance and access to specialized staff, local philanthropic entities may lack the capacity to identify charitable strategic economic development initiatives that comply with IRS rules.

Regional and State Infrastructure Networks to Enhance Local Vitality

Networks of philanthropy professionals and support systems external to the community are also important in creating effective local philanthropy institutions that support community vitality. This section reviews several items to highlight potential relationships with regional and statewide philanthropy systems that support community vitality.

Communication, Training, and Education in Best Practices. Local community foundations and philanthropy entities benefit from external networks and supportive alliances that promote education, training, and communication. These networks can provide regular communications and opportunities for continuing education to inspire confidence, nurture innovation, and promote best practices. These elements are often essential for new board members and staff as they establish patterns of activity in an area with which they may not be familiar (Edelman and Burke 2007).

Newsletters are important for making local leaders aware of upcoming educational events, philanthropy policy updates, success stories, granting opportunities, philanthropy outcomes, and emerging issues in the field. Several states, such as Iowa and Nebraska, conduct quarterly or annual workshops and conferences to share experiences among rural philanthropy leaders, to learn about topics in philanthropy that can add local value, and to network with industry consultants and professional staff (Edelman and Burke 2007).

Awards and Recognition for Success. Annual or regional events represent an opportunity to present awards and provide recognition for success in local philanthropic initiatives. In contrast to local awards that recognize donors or impacts of grant and endowment programs, the regional and statewide awards might help build a culture of best practices, stimulate ideas so local leaders learn what could be accomplished, and share results with the public to help create a stronger local culture for philanthropy.

In Iowa, 2006 award recipients included (1) a “need some funds” e-mail network developed by a local philanthropy entity, (2) a grant proposal development workshop for local nonprofits interested in accessing grant funds and affiliate accounts, (3) a challenge gift program to encourage other local donors to provide gifts, and (4) development of an alternate board member program to acquaint prospective board members with local philanthropy initiatives (“Best Practice Award Success Stories” 2003-2005).

Seed Funds for Innovative Demonstrations. Some regional and statewide foundations and public institutions provide incentives and seed funds for innovative demonstration projects that develop local philanthropic capacity (Edelman and Burke 2007). Such demonstrations can be important. This may be especially true after a change in policy incentives or when a model from another state might help to address an emerging issue beyond the conventional wisdom or normal practice of the local industry networks.

Scale Economies for Specialized Expertise and Institutional Functions. Providing services and access to specialized expertise are among the roles that are often better performed by philanthropy networks beyond the local community. Some foundation professionals suggest that a minimum portfolio of $10 to $15 million is required to justify professional investment management and national certification (Council on Foundations 2006). While national certification requirements help to reassure donors that their gifts will be protected and handled within a framework of stated policies, application and maintenance of certification requirements may be beyond the normal staff capacity and resources of smaller rural community foundations. In addition, access to specialized legal and accounting expertise may only be available on a regional or statewide level.

Policy Incentives for Collaboration and System Outcomes. Finally, from time to time, it may be useful to maintain contact with external networks involved with state philanthropic associations or national foundation associations. Such external networks in philanthropy play an important role in creating incentives for enhancing philanthropy outcomes, policies, and relationships that promote collaboration, opportunities to reduce barriers to philanthropic activity, and clout for addressing emerging issues.

Concluding Observations

Cultivating community foundations and philanthropic institutions with expertise to encourage and generate voluntary bequests, endowments, and end-of-life contributions for public and charitable purposes can enhance local resources available for eligible public and charitable purposes. In addition to traditional philanthropic best practices, some attention should be given to encouraging specific circumstances under which eligible charitable and public purposes may enhance odds for success of for-profit entities. Community vitality will be enhanced if all sectors of the community—public, private nonprofit, and private for-profit—are in a position to benefit from an emerging culture of philanthropy.

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