Step 0

STEP 0:

Orientation

What have we here?

This *Framework* is a guide to help people who lead community foundations think about and act strategically to build more and better permanently endowed assets focused on vitalizing and sustaining rural areas, rural issues, and rural populations. It does so in hopes of advancing Rural Development Philanthropy—the process and practice of creating and strengthening locally controlled endowment, grantmaking and community programs to improve rural livelihoods, economies and community vitality.

The *Framework* is portioned out into bite-size Steps (although some bites are bigger than others):

- **Step 0—Orientation.** That's this section. It will orient the new, remind the jaded, or bolster the true-believing community foundation leaders about why we do this work, why community foundations and endowment are important to rural communities, and how to parse the fundamental language of rural endowment-building.
- **Step 1—Know yourself.** Ahem. How can you start—or continue—without examining your community foundation's capacity, and what you learned from building the rural endowment you've managed so far? Do that here.
- **Step 2—Know your environment.** Abhor any vacuum. What are the giving trends and giving *potential* in and for your rural areas? How does the local-to-global economy affect the rural endowment-building climate? What emanates from the culture and character of your rural areas that's important to choosing your rural endowment building approach?
- **Step 3—Set your position and goal.** Rubber approaches road. Do you know what existing and potential rural donors think you do? Can you envision what you want them to think? Okay, set your rural endowment building goal(s) with that (and what you learned from Steps 1 and 2) in mind.
- **Step 4—Choose your tactics.** For years we've been looking. We've found 14 basic tactics that community foundations use—alone or in combination—to build rural endowment from varying types of rural donors. Find them here, with some illumination about what each takes. Shine that light on your situation: Which tactics will help you reach your rural endowment-building goal?
- **Step 5—Gauge your capacities.** Reality check. Have you got what it takes to implement your tactics to meet your goal? Know before you go.

- **Step 6—And so what?** Yes, well, did your effort make any difference? What really worked? What didn't'? What have you learned to apply your next foray at goal setting? *Proceed to amending Step 1…* and so forth.

With that forecast of what's ahead, we begin with our orientation.

Community foundations as rural actors

What is a community foundation? First things first. Community foundations are tax-exempt, nonprofit, autonomous, publicly supported, non-sectarian, philanthropic organizations that raise and manage a wide range of permanent endowment and non-endowed funds; in turn, the foundation uses the stream of revenue produced by these endowments and from pass-through funds to support charitable activities within the geographic area served by the foundation. In recent years, community foundations have been among the fastest growing source of charitable dollars in the U.S. Currently, more than 650 community foundations are operating in the United States, with scores growing in both developed and developing nations outside the U.S.

A community foundation offers its designated geographic area three primary services:

- A community foundation is a one-stop shop for local (and non-local) donors who wish to contribute their cash, trusts, bequest or real property to create permanent endowments that will benefit the community in perpetuity.
- Likewise, a community foundation is a one-stop shop for local (and non-local) individuals, foundations and public resource providers that seek to channel their pass-through resources toward purposes that will benefit the community.
- Using the investment earnings on each endowed fund, any available pass-through funding, and its ability to partner and leverage other resources into the effort, a community foundation makes grants and builds capacity within the community to address local needs and opportunities.

Not all community foundations are created equal. Indeed, community foundations can differ from one another a great deal, depending on their origin, the priorities and values set by their boards, and the culture, economy and demographics of the community itself. In general, some community foundations focus mostly on the endowment-building aspect of being a community foundation; others spend most effort on the community-building purpose of the foundation; while many try to strike a healthy balance to sustain the two.

What's special about rural community foundations? Rural community foundations are unique in their ability *to see* and *influence* a wide and interconnected array of rural community and economic development challenges and opportunities. Why are they special rural actors?

- **The whole picture.** Unlike nonprofits that focus exclusively on one area of community and economic development (CED)—for example, on attracting new business, on conserving natural resources, on providing social services, on improving job skills or on organizing arts and cultural events—community foundations can support the *entire range* of CED activities. As a result, community foundations can see overlooked community CED connections—the whole that is greater than its many parts.
- **Strategic flexibility.** Along with this vision, community foundations can offer the exceptional flexibility to respond at the right time in the right way to a community challenge. At times, they can even predict when a strategic convening, a small grant, or a key collaboration might result in positive, systemic community change.
- **Inclusive and non-partisan.** Community foundations are one of the few institutions whose job it is to bring diverse and sometimes divergent members of the community together in a nonpartisan manner. Rural community foundations have a long-standing tradition of bringing bankers together with shopkeepers, teachers with millionaires, artists with truck drivers, pastors with drain commissioners, foresters with recyclers, lobstermen with school children. The boards of community foundations typically are widely reflective of communities they serve.
- ***The* regional resource.** Even more so than their metro counterparts, in rural areas, community foundations are often the *only* institution that spans the many jurisdictions in a natural economic and cultural region. Indeed, in many rural regions, community foundations have become the key player to pull the region together. And because they match charitable resources with community opportunities, they can handle all the sides of a program transaction, from convening to study the problem, to donor services to establish funding streams, to leveraging in resource partners (outside foundations, government, business), to identifying and building the capacity of organizations to carry out the work, to offering fiscal agency to rural non-profits—in some cases, they even operate programs themselves.
- **Permanence.** Community foundations, because they build permanent endowed funds from local donors dedicated to the geographic area they serve, are in a rural region *to stay*. To paraphrase the words of the song, “They can’t take that community foundation away from you—now or ever.” Rural communities can trust that their community foundations will neither fly by night nor fade away.

Is there a downside? Despite these attributes, some rural-focused community foundations may have limited resources to devote to rural community and economic development. This may be true for several reasons:

- **Remote and neglected.** Rural areas are remote from the action. They don't get a lot of media attention. And typically, they are not home base to philanthropic institutions. Thus, despite great creativity, energy, opportunity (and poverty), rural areas garner fewer dollars from private, corporate and regional philanthropic sources that are available for anti-poverty, economic development, and community development work.
- **How to make a difference.** In general, donors and foundations are still on a steep learning curve about how *best* to use philanthropic dollars to achieve meaningful and long-lasting community and economic development outcomes, rural or not. So although there may be rich experimentation underway, there's a way to go before tried and true rural CED methods are attracting regular and long-term investors.
- **The difficulty (and promise) of youth.** The community foundation as an institution is burgeoning but young in much of rural America. Thus, there are many more start-up (10 years or younger) community foundations in rural areas than in urban, metropolitan and suburban areas of the U.S. That means fewer resources are available for any purpose.

Like any non-profit (rural or not), community foundations can change character and focus when their leaders change, if shared values and culture have not been well established by the board. However, the fact that they hold permanent endowments for specific purposes requires that community foundations stay focused to a certain extent. So, despite the relative youth and low resource base of many rural-focused community foundations, by comparison to most rural-based organizations, they emerge a potentially effective and very flexible institutional actor in rural communities and economies. And because community foundations do have some similarities, flexibility and range in basic structure and purpose, it can be easier for rural-focused donors to work with community foundations than organizations with narrower purposes or capacities.

Rural development philanthropy and building engines for rural endowments

Community foundations are both obvious players in the community economic development game *and* often the last organizations to which communities look. Community foundations bring local knowledge, love of community, nonpartisanship and a long-term, endowment-based commitment to the economic development table. Yet, they also do their work in the shadows of most communities—typically raising funds primarily from elites while providing small, flexible and "seed" funding for innovative projects. Meanwhile, community foundations are patiently growing and managing resources in the form of both discretionary and restricted endowments.[1] When community foundations commit to building endowed assets to support inclusive rural community and economic

[1] Community foundations are the fastest growing philanthropic organizations in the world and manage over $30 billion in assets, awarding more than $2 billion in grants in 2000.

development, they are almost always tasked with emerging from the shadows to engage in new forms of grantmaking, more proactive and grassroots fundraising, and more cross-functional and complex management and governance.

Endowed capital raised and allocated by rural communities provides both a tangible financial nest egg *as well as* the intangible "peace of mind" that having a nest egg brings. In arguing for a shift in our anti-poverty policy from an income maintenance to an asset development approach, Michael Sherraden has written of the "change in world view" that occurs when low-income people develop savings focused on building for the future. By contributing to a savings targeted for their family's or individual development, low-income people alter their orientation to the "luxury" of planning for their future—in contrast to surviving from day to day. Thousands of community development practitioners worldwide have heeded Sherraden and developed Individual Development Account and Family Development Account programs to help low-income people build the assets that will permanently remove them from the poverty rolls.[2]

Similarly, when a rural community *writ large* begins to develop its own "savings account" in the form of a community endowment, a comparable shift in worldview occurs. No longer is the community wholly dependent upon government, metropolitan seats of power or the whims of an increasingly global economy. Instead, rural communities hold their own resources. Over time, these resources offer rural communities an equal seat at the economic development table and allow them to respond quickly to opportunities or to sudden, unexpected crises. Community endowments imbue rural communities with a self-sufficient, creative worldview that *can sustain* towns and cities when faced with troubled times.[3]

While many community foundations award grants and even develop funds in and for rural communities, most have not integrated their grantmaking, fund development, community-building agenda and institutional structure to actually place philanthropy in the hands of rural people. Such an integrated approach requires a distinct set of skills and expertise and vision around community economic development that represents and improves the well-being of an entire community. The strategies, tools and expertise of Rural Development Philanthropy (RDP) help community foundations succeed by organizing answers and best practices around four principle questions:

1. How can community foundations **raise significant endowment funds from and for rural communities** to support rural community economic development?
2. How can community foundations **use grantmaking and program** activities to enhance the economic security of low-income rural families and communities?

[2]See Michael Sherraden's ***Assets and the Poor: A New American Welfare Policy*** *(M.E. Sharpe, Inc.: 1991) and The Corporation for Enterprise Development's www.idanetwork.org website.*

[3]See Janet Topolsky's article "Community Endowments for Community Futures" in ***Ideas in Development*** *(Corporation for Enterprise Development: 1999; pp. 31-34).*

3. How can community foundations help **build a region's awareness** that its identity and economic and social well-being depend upon both its rural and metropolitan areas?
4. What **management, structural and governance** (MSG) challenges and options face statewide and regional community foundations that seek to more fully serve their rural areas?

Through RDP, community foundations become agents of economic and social change—and in the process, become more inclusive and reinforce their mission. While no one would suggest that community-based philanthropy offers the best or only strategy to achieve stronger rural futures, access to endowed capital is *one* integral piece of the rural development puzzle—one that is often underdeveloped in rural communities.

Raising funds in rural areas can be challenging even when the fundraising goals are physical and visible, for example, a new wing on the public library or new coats for school children. Soliciting contributions for a more abstract "community fund" or for any type of endowments can prove arduous indeed. Nevertheless, community foundations have proven that these endowed resources can be developed and that community foundations provide the best engines for building them.

Rural funds have long been a staple for community foundations serving rural regions. Many community foundations hold agency endowments for rural libraries or manage scholarship trusts long-since abandoned by for-profit financial institutions. Community foundations have the flexibility to work with diverse donors representing the spectrum of private sector giving—from individuals contributing to a pooled fund, to the family establishing a donor-advised fund, to the local business, corporation or private foundation setting up a scholarship. Community foundations also have the capacity to accept gifts of varying sizes and structure—from the $25 check, to gifts of real estate, art, livestock or stock transfers. Most importantly, especially when it comes to sustainable economic development, community foundations are unique among rural community-based institutions: They offer a foothold in the present through their grantmaking and convening activities, while making a commitment to the future through their management of endowed capital *in perpetuity*.

While traditional endowments definitely contribute to community well-being, RDP asks community foundations to take rural endowment building one step further. RDP is an inclusive and intentional effort to draw the usual *and* unusual suspects to one table to create a **shared, dynamic and capitalized vision** of the community's future. Because rural endowment building is so challenging, communities cannot afford to exclude individuals. Community foundations and the community itself must cross class, race, gender, religious and other lines to ensure that everyone's strengths are tapped for this effort. To be "intentional," community foundations engaged in RDP cannot wait for rural donors (or their bequests) to appear before establishing rural endowments. Instead, community foundations must step out from the shadows and "position" themselves to partner with communities and donors to develop proactive, place-based strategies for raising rural endowments.

Engines for rural endowments—in contrast to one-time, fundraising campaigns—encompass the structures and strategies that shore up endowed resources by continually generating and renewing RDP *over time*. Time is a critical variable in RDP for at least two reasons. First, it will take time to grow a rural endowment to the level that it can distribute significant funds. Second, endowments are forever. Once established, a rural-focused endowment will demand that the community (through the community foundation's board of directors or set of advisors) consider how the fund will be "spent" for many, many years to come. The very nature of an endowment suggests that by the time significant funds are available for distribution, the folks who raised the funds will likely be long gone. Consequently, a long-term, inclusive vision, not only for the community or region, but *for the way the community foundation will make decisions together now and in the future,* must be engineered.

Without engines to build rural endowments, the inclusiveness and good intentions that inspire RDP will eventually fade and disconnect the community from the community endowment. Without process for renewal, the greatest community-building benefits of a community foundation (not *just* the money, but the group decisionmaking, shared vision, usual and unusual suspects side-by-side) are lost. Again, community foundations not only have the expertise, but also the mission and mandate to help communities make these decisions and to stick to them today and tomorrow.

Like nearly everything else associated with RDP, engines for rural endowments must be designed to meet the unique needs of the community itself. The following framework, therefore, should be considered just that: a framework for thinking and action that will help you build rural endowments. This framework is not an exact blueprint, nor is it a roadmap to, as an RDP consultant said recently, the "magic spigot." Unfortunately, there are no magic spigots. Instead, the following advice and tools will offer what some of the most experienced and best thinkers in community philanthropy have learned about building engines for rural endowments, while suggesting options and methods for customizing your endowment building strategy according to your own community's character and needs.

Community foundation endowment lingo

Before beginning to work with prospective donors, it is important for staff and board members (at least those who will be working with donors) to have a shared understanding of a few key community foundation terms, listed below and defined by the Council on Foundation's *Resource Development for Community Foundations Glossary*.[4] Some basic terms, especially those most central to rural development philanthropy, are included here, but we strongly encourage community foundations to make use of resources developed by the Council's Community Foundations Services and the Center for Community Foundation Excellence.

[4]The Council on Foundations has a wealth of resources for orienting community foundation staff and board to philanthropic and community foundation language and terms. See www.cof.org.

In addition to these basic terms, we have listed a few other definitions and explanations that will help you put this framework and its tools to best use. Because definitions and word choice can differ slightly from one foundation to another, it will be helpful to get a sense of what the framework has in mind when it uses the words: *advised fund* or *area fund*. Whether you choose to tweak these definitions or use them precisely is up to you, but demystifying some of the lingo will undoubtedly prove essential as your community foundation assembles its engine for building rural endowments.

Fund structure and grantmaking. Community foundations structure their funds in a variety of ways. The most common fund structures are as follows:

- Discretionary competitive funds *(also called "unrestricted")*
- Donor-advised competitive funds
- Donor-advised noncompetitive funds
- Area funds *(may be set up as donor-advised, field of interest or supporting organization)*
- Designated (or agency endowments)
- Field of interest funds
- Scholarship funds

Grants, or fund payouts, from endowed funds typically represent five percent of the fund's assets—often based on the average balance over a specified number of quarters and calculated at the beginning of the foundation's fiscal year. Non-endowed or "pass-through" funds are structured to allow donors to "invade principle" in order to recommend grants that exceed the payout policy established by the foundation.

The process for making grants depends upon the fund's structure:

- **Discretionary competitive funds:** awarded competitively by regional distribution committee/board appointed by the community foundation

- **Advised competitive funds:** awarded competitively by regional distribution committee appointed by donor
- **Advised, noncompetitive funds:** awarded upon recommendation (and staff due diligence) by one family or advisor
- **Designated/agency endowment:** five percent of fund balance is awarded automatically (following due diligence by foundation) on an annual basis to a rural organization/agency designated by donor, family, foundation or the nonprofit itself
- **Field of interest:** awarded competitively or by board discretion based on issue-oriented criteria established by the foundation and through a foundation-appointed distribution committee
- **Scholarships:** typically awarded through a competitive process by a committee designated either by the donor or the foundation at the time of the fund's establishment; others operate similarly to designated funds, in that an annual disbursement is made to a named high school or college that coordinates its own selection committee and process.

Due diligence. Generally speaking, "due diligence" can be defined as "the degree of prudence that might be properly expected from a reasonable person in the circumstances." As due diligence relates to community foundations, it might be included under "fiduciary duty" or the legal responsibility for acting wisely on behalf of a beneficiary or more broadly, the responsibility exercised by foundation boards (and staff) on behalf of donors and the governing documents of the foundation.

When a grant is recommended by a community foundation donor, advisory committee, board or staff, a part of the grantmaking process includes due diligence to make certain that, among other things, the grantee's tax status renders it eligible to receive charitable gifts, that no services or gifts have been offered in exchange for the grant and that the decision to make the grant has followed the foundation's stated policies and procedures. The provision of due diligence by staff is often included as the most basic "donor service."

Gift vehicles. Donors may contribute any of the following type of assets to build rural endowment.

- **Cash**
- **Stock:** A gift of ownership shares in any publicly traded company, usually converted to cash soon after the community foundation receives it.
- **Bequest:** A gift by will to a specific recipient; a charitable bequest is a transfer at death by will to a nonprofit organization for charitable purposes.

- **Charitable gift annuity:** A gift of cash or securities from a living donor in exchange for the promise of lifetime income, immediate or deferred. A charitable gift annuity is a contract between a donor and charity that is part charitable gift and part purchase of an annuity. The total assets of the charity back the payments.
- **Charitable lead trust:** A charitable lead trust pays the trust income to a charity first for a specified period, with the principal reverting to the donor or going to other person(s) at the end of the period. If it is established by will, it is known as a Testamentary Charitable Lead Trust.
- **Charitable remainder trust:** A gift plan that provides income to one or more beneficiaries for their lifetimes, a fixed term of not more than 20 years, or a combination of the two. Assets, usually cash, securities or real estate are transferred to a trust that pays income to the beneficiaries for the term of the trust. When the trust term ends, the remainder in the trust passes to the charity. Can be established as a Charitable Annuity Remainder Trust with a fixed payout or as a Charitable Remainder Unitrust with a variable payout. Can be established either by will or during a donor's lifetime.
- **Real property:** Gifts of real estate, art, collections, or other owned property including livestock, crops, or other real business assets. Like stock, these are typically converted to cash by the community foundation.

Public support test. Two public support tests exist to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a)(1) or 170(b)(1)(A)(vi) for the sections of the IRS Code where it is found, is for charities such as community foundations that mainly rely upon gifts, grants and contributions. To be automatically classed as a public charity under this test, organizations must show that they normally receive at least one-third of their support from the general public (including government agencies and foundations). However, an organization that fails the automatic test still may qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics—such as a broad-based board—that makes it sufficiently "public."

The second test, sometimes referred to as the section 509(a)(2) test, applies to charities, such as symphony orchestras or theater groups, that get a substantial part of their income from sales of services that further their mission, such as the sale of tickets to performances. These charities must pass a one-third/one-third test: They must demonstrate that their sales and contributions normally add up to at least one-third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

Note: When in any doubt about your foundation's or a grantee's ability to meet the public support test, a consultation with a lawyer is absolutely recommended.

Endowed and non-endowed funds. While RDP is deliberately focused on building rural endowments (based in large part upon the community economic development ideas discussed above), many community foundations choose not to emphasize endowment at any point in their fundraising work. While some foundations will only accept endowed funds, others offer donors the option of starting out with a non-endowed fund to help the donor test the waters. Some foundations charge a slightly higher fee for non-endowed funds in an effort to encourage endowments. Other foundations simply follow the donor's preference with no predisposition toward endowed versus non-endowed funds.

What is consistent is that these decisions seem to follow an overall philosophical approach to fundraising and to philanthropy. Consequently, it is important that your organization (board, staff, stakeholders) have discussed and understand at least two things: first, the difference between endowed and non-endowed funds, and second, the philosophical approach your foundation takes to developing one or the other or both types of funds.

On to the six steps

Now that we have a little orientation….If you really want to hunker down and get your foundation in gear on rural endowment building using this *Framework*, it will help if you have a team that takes it on, checks your record, tests the market, sets a goal, plans an approach, tracks it, revises the plan and sticks with it through several cycles—even if it's just three people. Now collect your team and get started!