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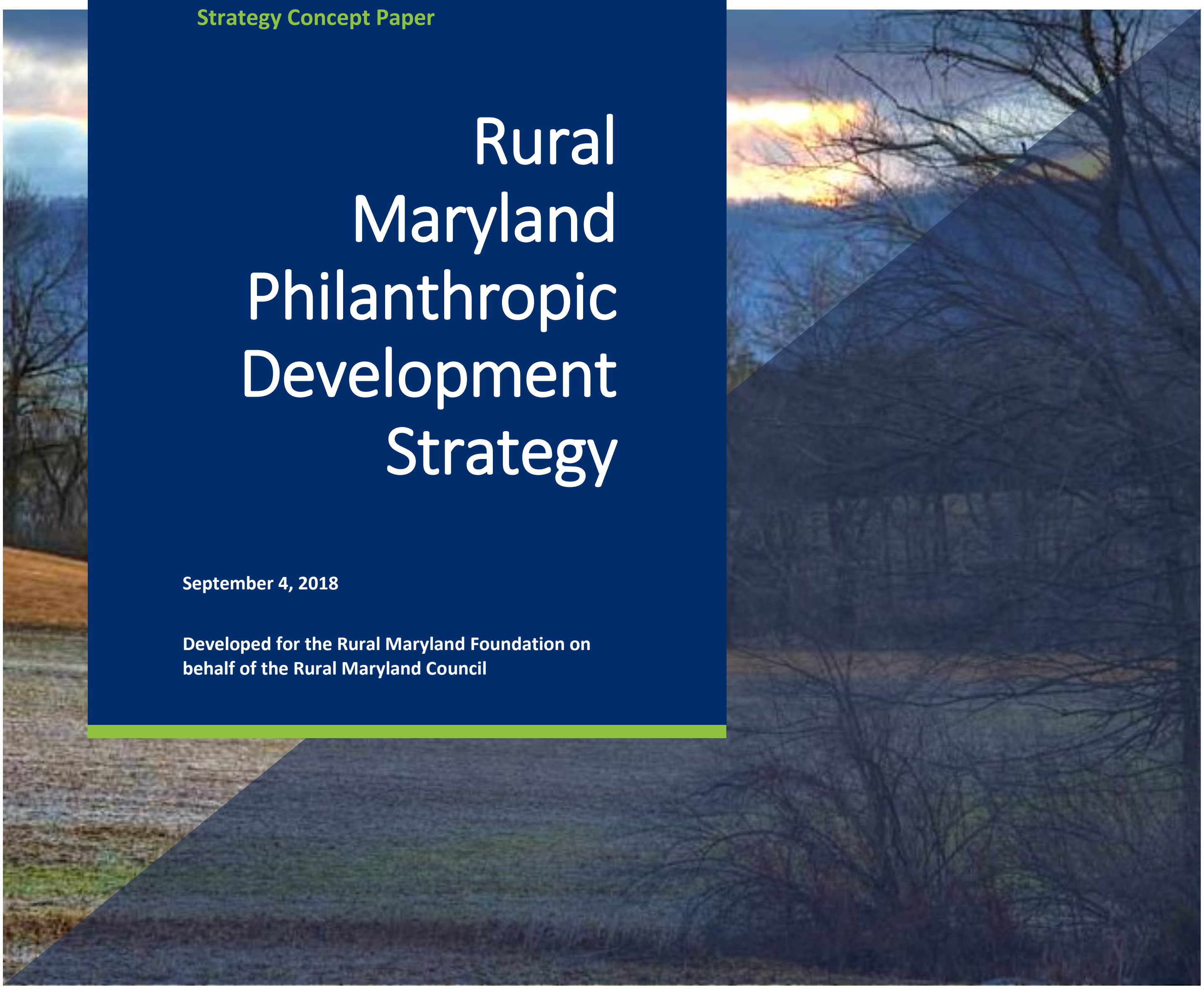

Strategy Concept Paper

Rural Maryland Philanthropic Development Strategy

September 4, 2018

Developed for the Rural Maryland Foundation on behalf of the Rural Maryland Council

About the Rural Maryland Council

The Rural Maryland Council (RMC) brings together citizens, community-based organizations, federal, state, county and municipal government officials as well as representatives of the for-profit and nonprofit sectors to collectively address the needs of Rural Maryland communities. RMC provides a venue for members of agriculture and natural resource-based industries, health care facilities, educational institutions, economic and community development organizations, for-profit and nonprofit corporations, and government agencies to cross traditional boundaries, share information, and address in a more holistic way the special needs and opportunities in Rural Maryland.

RMC's vision is a future where all of Rural Maryland is prosperous with thriving resources, vibrant economies, and healthy, connected communities.

www.rural.maryland.gov

About the Rural Maryland Foundation

The mission of the Rural Maryland Foundation is to support efforts of citizens and government to meet the economic and social needs of rural Maryland; to serve as the Maryland Rural Development Council if the Rural Maryland Council ceases to function in that role; and to support the efforts of the Rural Maryland Council.

The Foundation has been instrumental in supporting RMC goals and projects. For example, when the RMC identified a lack of credit for young and beginner farmers, the RMC, with Foundation support, helped create the Maryland Agricultural and Resourced-Based Industry Development Corporation, also known as MARBIDCO.

www.ruralmdfoundation.org

The Center for Rural Entrepreneurship was acquired by Virginia Community Capital (VCC) in January 2017. As part of this acquisition, the Center team worked with VCC to create and support LOCUS Impact Investing. By the close of 2018, the Center for Rural Entrepreneurship will no longer exist, and its work will be continued through LOCUS Impact Investing and other organizations yet to be defined.

The **Rural Maryland Foundation** on behalf of the **Rural Maryland Council** has retained the **Center for Rural Entrepreneurship** (now LOCUS Impact Investing) to help rural Maryland develop a ***Rural Maryland Philanthropic Development Strategy***. This paper provides preliminary strategy concepts. This work builds on the Center's **earlier work** for the Foundation and the Council producing a Transfer of Wealth Opportunity analysis for rural Maryland, its regions, and counties.

The following strategy development process is being employed to co-create a philanthropic strategy for rural Maryland:

- 2017 – Center completed Transfer of Wealth Opportunity Analysis for Rural Maryland.
  [**Transfer of Wealth in Rural Maryland**]
- October 20, 2017 – Strategy Development began with a "Goal Clarification" working session.
  [**Transfer of Wealth Work Group Meeting**]
- January 19, 2018 –The Team explored Strategy Options and Considerations.
  [**Working Session 2 – Setting Strategy Goals**]
- February 16, 2018 – The Team participated in a Strategy Development working session.
  [**Working Session 3 – Philanthropic Strategy Options**]
- February-April Interim – The Rural Maryland Team undertook research and partner exploration.
- April 20, 2018 – The Team and Center shared interim material in a working session, and the Center commited to develop a strategy paper by mid-May for the Team's consideration.
  [**Working Session 4 – Moving to Strategy Development**]
- June 24, 2018 – The team participated in a final working session to review and finalize the strategy.
  [**Final Working Session – Finalize the Strategy**]

Questions and Additional Information

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The End Game for this Work?

Working session two (January 19, 2018) articulated the following strategy goals:

Keep wealth in rural Maryland.
Engage foundations in the initiative.
Engage community foundations, private foundations, and non-profits.
Support enhanced estate planning.
Provide best practices.
Provide gap financing.
Help rural Maryland minority farmers.

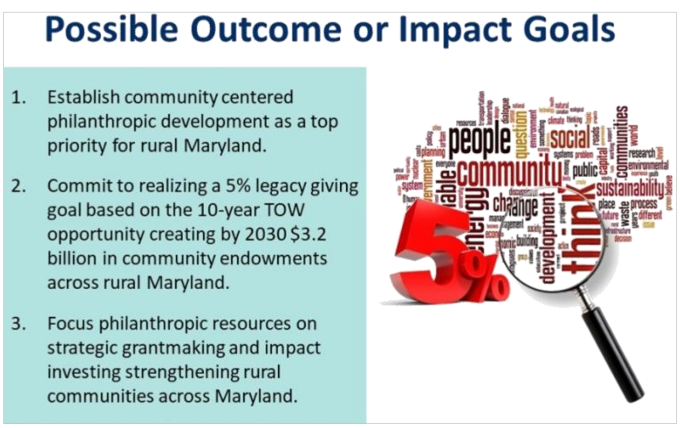
The Prosperity End Game

Philanthropy and even community economic development is a means to an end. At the end of the day, our ultimate goal is to grow more prosperous communities and greater resident well-being. Sustained and broadly shared prosperity contributes to community vitality.

After considerable discussion, the Team has decided to embrace the following overarching goal using the strategy goals:

Keeping wealth in rural Maryland
so that it can be used to support
community economic development work.

As part of the January 2018 working session focused on goal setting, the Team shared and accepted the following considerations:



During our two working sessions focused on goals, we suggested three possible outcomes or impact goals as illustrated in the left-handed graphic above. We also offered five strategy goals, shown above on the right. While these specific measures were not adopted, the Team achieved a degree of concensus around them, and our proposed philanthropic strategy, outlined in this paper, reflects some elements of these goals.

Both community philanthropy and community economic development are *means* to desired *ends*. It is important that we have consensus around our end game for this work. Based on our previous conversations, we would propose that we are seeking a more "prosperous" rural Maryland. Within this end game vision, we are seeking ways to strengthen rural communities and their regions, enhance the well-being of rural residents, foster a more dynamic and competitive economy, and strengthen rural communities in Maryland.

The intentional and strategic development of place-based philanthropy (PBP) and community economic development represents an innovation that is at the root of our proposed rural community philanthropic strategy.

The Resource Challenge

Traditional sources of community economic development (CED) funding face increasing challenges in the current environment. Traditional sources of CED would include federal, state, and local governments, main street (e.g., chambers of commerce), corporations and major employers (e.g., development corporations), and outside foundation funders. Federal funding for rural CED has been in a three-decade cycle of stagnation and decline. While traditional sources of rural CED funding remain important, they are increasingly insufficient to meet all needs and opportunities.

Bottom line, there is a growing need to find new and innovative sources of funding to support everything from community strategic planning to community capacity building to gap funding for CED deal flow. The question is – where might this new source of funding be found?

Place-Based Foundations – A Potential Solution?

Place-based foundations (PBF) cannot and should not attempt to replace traditional CED funding and roles. However, PBFs are more actively engaging in community economic development or CED activities across the United States.

Figure 1 provides an illustration of how PBFs are transforming and moving into these arenas.

Figure 1. Continuum of Foundation Roles

<table>
<tr><td rowspan="2">Historic or Traditional Foundation Role & Mission</td><td colspan="2">Donor Advisory Funds</td><td>Affinity Funds</td><td rowspan="2">Donor Centric</td></tr>
<tr><td>Support Favorite Charities</td><td>Do Good Work Focus Strategic?</td><td>Targeted Grant Making like Scholarships</td></tr>
<tr><td rowspan="6">Private Donor Services are Driving Public Foundations To Reposition</td><td colspan="2">Community Focus</td><td rowspan="3">Aligning Donor Advised Funds and Targeted Grant Making with Community Priorities</td><td rowspan="6">Threat of Private & For-Profit Donor Service Firms Competition</td></tr>
<tr><td>Convening Role</td><td>Supporting Research</td></tr>
<tr><td>Non-Profit Engagement</td><td>Strategic Initiatives</td></tr>
<tr><td colspan="3">Strategic Grant Making</td></tr>
<tr><td>Challenge Grants</td><td>Strategic Endowments</td><td>Non-Profit Endowments</td></tr>
<tr><td colspan="3">Impact Oriented Donor Development</td></tr>
<tr><td rowspan="2">Next Generation Role & Mission</td><td>Strategic Directions</td><td>Strategic Grant Making</td><td>Philanthropic Impact Investing</td><td rowspan="2">Community Impact Centric</td></tr>
<tr><td colspan="3">Future Funds</td></tr>
</table>

Before we proceed, it might be helpful to provide a definition of PBFs. Place-Based Foundations include any IRS 501(c)(3) recognized charitable foundation with a mission focus on a particular community or geography. PBFs primarily include community foundations, health care conversion foundations, private foundations, and/or family foundations. The primary PBFs engaging in CED are community foundations. The concept of a Community Foundations is just over 100 years old in the United States. Today, community foundations are experiencing explosive growth in numbers (particularly when affiliate foundations are included), assets, and potential capacity for good. Historically, community foundations focused on providing a philanthropic vehicle for donors desiring to support good works in their community. While this “donor” mission remains very strong as the legacy role and mission of community foundations, community foundations are increasingly moving into the CED space. The evolution towards “community impact” is accelerating. Figure 1 provides a continuum of community foundation roles from the traditional donor service mission to community defined strategic grant making and philanthropic impact investing.

This community foundation “mission evolution” coupled with the massive inter-generational transfer of wealth opportunity provides for a powerful new, innovative, and rooted source of funding for rural CED.

Rural Maryland's Transfer of Wealth Opportunity

In 2017, the Center completed transfer of wealth (TOW) opportunity analysis for Maryland, rural Maryland including its counties, and development regions. The TOW opportunity for rural Maryland is staggering in its scale and potential:

- 2016 Household Current Net Worth = $530 billion
- 10-Year (2017-2026) TOW Opportunity = $64 billion
- 50-Year (2017-2066) TOW Opportunity = $703 billion

Note: All monetary values are provided in inflation adjusted dollars meaning that a dollar in 2066 would have the same purchasing power as a dollar in 2016.

Three Illustrations of How Philanthropy Development can Grow a Stronger Rural Maryland

Increasing philanthropy in rural Maryland cannot and should not replace what government does or how corporations and other larger employers support communities and charitable organizations. Philanthropy cannot be viewed as the primary way to increase capital to fuel rural community economic development in Maryland. However, rural Maryland's transfer of wealth opportunity and the potential to increase charitable giving in support of growing a stronger rural Maryland is significant. The following illustrates how focused commitments and investments into energizing philanthropy in rural Maryland could materially strengthen efforts to grow stronger communities, organizations, institutions and residents.

Figure 2. Philanthropy Development Illustration

Increased Charitable Giving	Legacy Giving & Endowment Building	Philantrhopic Impact Investing
There is massive potential to increase annual charitable giving and support charitable focused capital improvement campagins throughout rural Maryland.	Over the coming decade there is a $64 billion transfer of wealth opportunity available to rural Maryland. There is significant potential to grow endowments through legacy giving.	A rapidly growing trend in philanthropy is impact investing. For some charitable purposes investing versus grant making could result in greater impact with the same dollars.

Now, we will further explore these three illustrations of how rural Maryland's transfer of wealth opportunity can result in increased resources for nonprofits, local governments, education, and place-based foundations.

For these illustrations we are employing our 2017 transfer of of wealth (TOW) opportunity 10-year scenario. Our analysis conservatively estimates that in the coming decade a remarkable $64 billion in household wealth will transition from the current generation to the next. If just five percent of this opportunity translated to increased donor giving, an amazing $3.2 billion could be mobilized for charitable purposes.

Increased Charitable Support for Nonprofits and Other Charitable Causes

Rural Maryland's TOW opportunity does not necessarily flow into legacy giving or endowments. TOW represents a capacity on the part of households to become donors in many ways. Through donor development and planned giving, it is possible to increase annual or capital improvement campaign giving while the donor is alive or as part of their estate plan when they pass away.

For illustration purposes, we will suppose, as part of a donor development strategy, there was a call for increased annual giving to charitable organizations and purposes. Think in terms of the annual "giving day" campaigns. If just 1% of the 10-year rural Maryland TOW opportunity flowed into increased annual giving or giving to charitable capital improvement campaigns, $641 million would be available over a decade to support nonprofits. That's $64.1 million annually on average. What could an additional $64 million annually mean to charitable organizations throughout rural Maryland?

Endowment Grant Making Potential

Focusing on just the more immediate or 10-year TOW opportunity the following is possible…

10-Year Rural Maryland TOW Opportunity = $64.102 billion
5% Legacy Giving Goal Realized = $3.205 billion

If just 5% of the 10-year TOW opportunity or $64.102 billion could be attracted to community and organizational endowments across rural Maryland, nearly $3.205 billion in permanent endowments could be grown over time. Assuming a sustainable rate (allowing the endowment corpus to grow and be inflation protected) of 4.5% annual payout (over a 20-year period), the following grant making potential could be realized for rural Maryland communities:

20 Years of Grants = $4.29 billion Granted to Projects
Permanent Endowment Grows from $3.2 billion to $5.953 billion
Endowments Grow by $2.783 billion or +87%

Figure 3 (next page) provides an illustration of the power of compound earnings coupled with time associated with permanent endowments. Using this illustration energizes communities, donors, charities and financial advisors. We refer to this as "legacy giving". With permanent endowments, a donor's gift, properly managed by a foundation, continues to give forever.

Given current endowments by place and interest focused foundations in rural Maryland, a five percent legacy giving goal may seem a bridge too far. Across rural America, however, communities and regions are realizing five percent legacy giving goals based on their 10-year TOW opportunity. This goal is feasible, but it requires robust investment, long-term and deep commitment, and a smart donor development strategy.

Figure 3. 20-Year Endowment Illustration (Employing Rural Maryland's 10-Year TOW Opportunity)

Year	Beginning Endowment Principal	Annual Earnings	Annual Grants	Ending Endowment Principal
Start Year	$3,200,000,000	$240,000,000	$144,000,000	$3,296,000,000
Year 1	$3,296,000,000	$247,200,000	$148,320,000	$3,394,880,000
Year 2	$3,394,880,000	$254,616,000	$152,769,600	$3,496,726,400
Year 3	$3,496,726,400	$262,254,480	$157,352,688	$3,601,628,192
Year 4	$3,601,628,192	$270,122,114	$162,073,269	$3,709,677,038
Year 5	$3,709,677,038	$278,225,778	$166,935,467	$3,820,967,349
Year 6	$3,820,967,349	$286,572,551	$171,943,531	$3,935,596,369
Year 7	$3,935,596,369	$295,169,728	$177,101,837	$4,053,664,260
Year 8	$4,053,664,260	$304,024,820	$182,414,892	$4,175,274,188
Year 9	$4,175,274,188	$313,145,564	$187,887,338	$4,300,532,414
Year 10	$4,300,532,414	$322,539,931	$193,523,959	$4,429,548,386
Year 11	$4,429,548,386	$332,216,129	$199,329,677	$4,562,434,838
Year 12	$4,562,434,838	$342,182,613	$205,309,568	$4,699,307,883
Year 13	$4,699,307,883	$352,448,091	$211,468,855	$4,840,287,120
Year 14	$4,840,287,120	$363,021,534	$217,812,920	$4,985,495,733
Year 15	$4,985,495,733	$373,912,180	$224,347,308	$5,135,060,605
Year 16	$5,135,060,605	$385,129,545	$231,077,727	$5,289,112,423
Year 17	$5,289,112,423	$396,683,432	$238,010,059	$5,447,785,796
Year 18	$5,447,785,796	$408,583,935	$245,150,361	$5,611,219,370
Year 19	$5,611,219,370	$420,841,453	$252,504,872	$5,779,555,951
Year 20	$5,779,555,951	$433,466,696	$260,080,018	$5,952,942,629
Total Grants			***$4,129,413,944***	

The next section goes a bit deeper on the emerging use of philanthropic funds (both grants and investments) to support CED related gap financing.

Endowment Impact Investing Illustration

Imagine the community betterment work that could be supported over the next 20 years in rural Maryland if an additional $4.29 billion in philanthropic grants were available. Now imagine if a portion of rural Maryland's 10-year TOW with a realized 5% legacy giving goal were deployed as investments versus grants. Philanthropic dollars can be used as investments as well as supporting grants. Once grants are made these philanthropic resources are lost forever. With philanthropic investments, or what we call philanthropic impact investing (PII), the potential exists that philanthropic assets can be recycled greatly increased potential leverage and impact. Just as is the case with philanthropic grants, philanthropic investments must meet U.S. Internal Revenue charitable purpose standards and rulings. One of the fastest growing trends in American philanthropy is impact investing.

First, philanthropic impact investments can be capitalized one of two ways:

Grant Supported. A lower risk way to capitalize philanthropic impact funds is to target existing philanthropic grants to impact funds. This is a simple redeployment of existing grant making capacity. It represents a way for philanthropy to move into this role and mission space before making the more substantial decision to deploy philanthropic assets directly into investments.

Corpus Supported. The second way foundations can capitalize impact funds is to allocate a portion of philanthropic assets or corpus. For example, a community foundation with $500 million in permanent endowments might allocate 1% of its corpus or $5 million to an impact investment fund. Given a foundation's legal obligation to perpetuate its endowments over time it will typically use a smaller portion of its assets drawn from shorter-term and lower-return portions of its investment portfolio. With investments, there is always the potential for loss of assets if investment deals do not perform as expected. For more information, LOCUS Impact Investing has additional educational resources on how foundations can engage in impact investing

The following provides an illustration of how a portion of rural Maryland's 10-year TOW opportunity could achieve more community impact over time. For reference, remember our endowment and grant making illustration for comparison purposes:

10-Year Rural Maryland TOW Opportunity = $64.102 billion
5% Legacy Giving Goal Realized = $3.205 billion
$3.205 billion in New Permanent Philanthropic Endowments
20-Years of Grants from these Endowments = $4.29 billion
Endowment Grows from $3.2 to $5.95 billion or by 87%

Now let's assume that 5% of these new endowments are placed in properly managed impact investment funds…

Figure 4. 20-Year Endowment Illustration (Employing $160 million starting sum)

Year	Beginning Endowment Principal	Annual Earnings	Annual Grants	Ending Endowment Principal
Start Year	$160,000,000	$12,000,000	$7,200,000	$164,800,000
Year 1	$164,800,000	$12,360,000	$7,416,000	$169,744,000
Year 2	$169,744,000	$12,730,800	$7,638,480	$174,836,320
Year 3	$174,836,320	$13,112,724	$7,867,634	$180,081,410
Year 4	$180,081,410	$13,506,106	$8,103,663	$185,483,852
Year 5	$185,483,852	$13,911,289	$8,346,773	$191,048,367
Year 6	$191,048,367	$14,328,628	$8,597,177	$196,779,818
Year 7	$196,779,818	$14,758,486	$8,855,092	$202,683,213
Year 8	$202,683,213	$15,201,241	$9,120,745	$208,763,709
Year 9	$208,763,709	$15,657,278	$9,394,367	$215,026,621
Year 10	$215,026,621	$16,126,997	$9,676,198	$221,477,419
Year 11	$221,477,419	$16,610,806	$9,966,484	$228,121,742
Year 12	$228,121,742	$17,109,131	$10,265,478	$234,965,394
Year 13	$234,965,394	$17,622,405	$10,573,443	$242,014,356
Year 14	$242,014,356	$18,151,077	$10,890,646	$249,274,787
Year 15	$249,274,787	$18,695,609	$11,217,365	$256,753,030
Year 16	$256,753,030	$19,256,477	$11,553,886	$264,455,621
Year 17	$264,455,621	$19,834,172	$11,900,503	$272,389,290
Year 18	$272,389,290	$20,429,197	$12,257,518	$280,560,968
Year 19	$280,560,968	$21,042,073	$12,625,244	$288,977,798
Year 20	$288,977,798	$21,673,335	$13,004,001	$297,647,131
Total Grants			***$206,470,697***	

5% of the $3.205 billion in New Endowments = $160 million

Loan Period = 20 Years

Loan Capital Cycles Every 7 Years or 2.86 Times Over the 20 Year Period

These Philanthropic Gap Financing Loans Realize a $1 to $5 Leverage*

*Leverage refers to the non-philanthropic dollars that are "leveraged" as part of a public or private development activity. Typically, there is a capital gap that must be filled for a project to move forward. It is this gap that creates a potential philanthropic rationale for the use of charitable dollars. Affordable housing would be a great example… where there is generally a funding gap between the equity of a working family and bank financing.

Gap Capital Generated from Impact Investing = $458 million

Leverage = $1,832 million

Total Capital Deal Flow Generated = $2,290 million

The potential grant making impact of this $160 million would be….

Placed in a gap financing impact fund**, this $160 million could over a 20-year period lead to:

22,900 new $100,000 Small Business Deals
2,290 new $1 million Community Facilities – Schools, Parks, Community Centers, etc.

**We explore gap financing in the next section of our strategy paper. In the most basic terms gap financing refers to the capital needed that cannot be provided through conventional financing vehicles. Without filling this gap, the projected project – recreation center, library maker lab, or new minority business – could not be fully capitalized.

We are not recommending foundations move into the impact investing space, but we are recommending that as rural Maryland explores its longer-term philanthropic and community economic development strategy it actively explore how impact investing could augment development goals.

Gap Financing

For many communities, gap financing is foundational to supporting community economic development projects. This reality is particularly true for communities (both rural and urban) that are experiencing or have experienced socioeconomic distress. In these communities, gap financing can leverage more development projects contributing to community revitalization, increased opportunities for community residents and stronger prosperity.

Gap Financing Defined

Gap financing meets a market deficiency where traditional for-profit financing mechanism, like banks, cannot meet the total capital needs of a community economic development project.

Historically, gap financing has largely been capitalized through government sponsored mechanisms (e.g., USDA Rural Development, HUD, EDA, Treasury/CDFIs, state funds, community TIFs, etc.). Government, at all levels in America, is in lock-down mode. Domestic government funding is flat at best and, in most cases, is in decline in real dollar terms. Every indicator strongly suggests that historic government related gap financing resources and tools will become increasingly constrained over the coming decades. Massive government debt and competing entitlement and defense spending will likely drive discretionary government spending down eroding the value of gap financing resources for our communities.

At the same time, America's philanthropic sector is growing and increasingly moving into the community economic development space. The emergence of strategic grant making and philanthropic impact investing represents possibly the greatest opportunity to bring NEW real capital into the gap financing space. While most foundations (possibly those in Maryland), are still very emergent with respect to pro-active community economic development engagement, there are leadership and institutional opportunities that could accelerate progress on this front.

Meaningful Collisions

Even though PBFs and CED organizations share the same community, care about the same community, probably know of each other, and may have even worked on a project or two together – in most communities, these two worlds are too large navigate alone. For strategic community economic development to occur with support from community philanthropy, there is a need for "meaningful collisions." Central to our proposed strategy, we recommend that these meaningful collisions between PBFs and CED groups are intentionally fostered. Growing understanding, relationship-focused, and strategic collaborations between the leadership, governing boards, staffing, and volunteers of CED groups and PBFs will create the right kind of environment for success.

Getting Organized and Moving Forward

Based on our work to date, we offer the following strategy concept.

Generational Commitment. Based on the models we will highlight in a later section of this paper, a clear pattern emerges with this type of initiative. Typically, it appears to take 10 years to get organized and evolve a promising game plan. In the second decade, the smart game plan scales up and begins to generate transformative impact. Based on past experience, it appears that a generation or 25 years is an aggressive but realistic timeframe for this kind of work. We recommend that rural Maryland create a collaborative partnership willing to make a generation-long commitment.

Rural Maryland Council. The Rural Maryland Council (RMC) took ona leadership role in commissioning the original transfer of wealth opportunity analysis in 2016-2017 and now the philanthropic strategy development work (2017-2018).

- We recommend that the Council continue in this convening and leadership role.
- We suggest that the Council create a defined initiative working group with expanded leadership (beyond the Council).
- This working group, in turn, should be charged with engaging both rural PBFs and CED organizations to create an informal, but robust network to explore and commit to this work. Finally, this network of PBFs and CED organization would make a request in partnership with the Rural Maryland Foundation (RMF) to seek funding from the Council to support (including staffing) the development of a Network of Rural Maryland PBFs and CED Organizations (Network).

Rural Maryland Foundation. The RMF in partnership with the new Network would assume the convening role for this initiative. The RMF would secure staffing for the Network and pursue non-state funding partners for this work. Using the Kansas model, we need to find one or more foundations (like Kansas Health Foundation in the Kansas model) willing to partner long-term in support of this initiative. We recommend multi-year funding commitments for the following:

- Staffing and Resources for the Network
- Development grants for area PBFs and CEM collaboratives
- A REDPIN initiative
- Capacity building support for donor development
- Challenge grants for endowment building

Network of Rural Maryland PBFs, NGOs and CED Organizations. Using an existing or, if needed, new organizational platform, we recommend that this work evolve a Network of rural Maryland PBFs, NGOs, and CED Organizations. The Network would evolve over time and assume the role of visioning, developing, and sustaining this work.

Funders and Underwriters. As noted earlier, we recommend securing funding and underwriting partners early on to leverage State support through the Council to empower this initiative. Proper capitalization of this initiative is foundational to realizing transformative impact within a generation. There are significant philanthropic resources in Maryland that could be developed to bring major, longer-term funding support to the initiative.

Community Foundation Development. A primary focus of this proposed initiative would be to actively partner with and support the development of community foundations throughout rural Maryland. Key community foundation development focus areas include:

Universal Community Foundation and Affiliation Coverage. We strongly recommend the host regional community foundation and affiliate model for communities and organizations. The Nebraska Community Foundation (NCF) development model is one of the strongest rural models, and we recommend that you explore this model to craft a development game plan for community foundations and their ability to host affiliates. Affiliate development is a cost leader (costs more early on than fee income generates) requiring development funding for community foundations. As part of this work, we recommend challenge grants to stimulate and support community foundation operational funds and endowments creating capacity to provide robust affiliate services. Other relevant models include the Community Foundation of Greater Des Moines and [Insert Actual Name] (ICAN)

Donor Development and Endowment Buildings. A second development focus would be to enhance the ability of community foundations and their affiliates (both communities and NGOs) to engage in donor development and endowment building. We recommend close study of the NCF development model. Over the past 25 years, NCF has evolved a robust and growing to scale donor development and endowment building game plan. It is decentralized with partner communities and organizations

Set Giving Goals

We strongly recommend that giving goals be established. When we set goals the potential for realizing them increases. A 1% or even 5% giving goal would focus development efforts. Setting such goals creates a “bigger vision” that can motivate other partners to become engaged.

receiving necessary support from the Foundation. We recommend that rural Maryland form a collaborative relationship with NCF and explore how the NCF development model could be replicated in Maryland.

Maryland REDPIN Initiative. REDPIN or Rural Economic Development Philanthropy Initiative Network is a joint venture of the Community Strategies Group within the Aspen Institute and the Center for Rural Entrepreneurship/LOCUS Impact Investing. Currently there are eight community foundations and their CED partners participating in a two-year peer discovery and learning experience focusing on how community foundations can support community economic development. We recommend that rural Maryland consider a REDPIN like initiative. Earlier in our paper we talked about creating "meaningful collisions." Securing and sponsoring a REDPIN peer learning program could accelerate these collisions and advance a culture where community philanthropy and community economic development become aligned, strategic, and impactful. Refer to Appendix 2 for more detail on the REDPIN concept applied at a state level.

Capacity Building Support for Donor Development. PBFs and non-profits are often on a tread mill where there is limited staff and capacity to engage in more aggressive and impactful donor development. We recommend development of potential funders to create and sustain a "capacity building effort" increasing the ability of PBFs and non-profits to engage in donor development and endowment building. Our recommendation includes two primary components. First, development of a comprehensive and sustained capacity building program and network. The focus of this activity would be to increase the knowledge, skills and experience of PBFs and non-profits to grow smarter and more impactful donor development strategies. But this investment alone is insufficient to achieve progress towards this desired outcome. The second activity involves increasing the financial capability of PBFs and non-profits to staff up and develop programs. The Kansas Health Foundation in Kansas, the Kellogg Foundation in Michigan and Nebraska and the Lilly Endowment in Indiana have all provided challenge grants to grow PBF operating endowments. Technical assistance and training can help, but ultimately there must be more staffing and programing dollars to step up donor development.

Challenge Grants for Endowment Building. Rural communities are typically at their best when they have a compelling project to realize. Tapping into this trait we recommend an additional strategy to help grow the endowments of PBFs and non-profits. The Kansas Health Foundation, partnering with community foundations through its GROW Strategy, has stimulated endowment building through the use of challenge grants. The opportunity to leverage outside funds can catalyze community engagement leading to endowment building. This process drives a whole set of behaviors, such as development of compelling giving cases, that empower donor engagement and giving. The Lilly Endowment in Indiana, the Mott Foundation in Michigan, and the Nebraska Community Foundation through the Kellogg, Ford, and various instate private foundations have demonstrated models worth additional exploration that could guide a rural Maryland strategy.

Getting Started.
When we reflect on the origins of the Nebraska or Iowa rural philanthropic development strategies, it is easy to lose sight of how challenging getting started can be. On the one hand, there are so many opportunites and possible strategies and tactics. On the other, there is only so much bandwidth or capacity to support this work early in the process. Rural Maryland can't and probably should not try to simply replicate what Kansas or Minnesota has done to develop rural philanthropy in their states. The Rural Maryland Council

challenged us to recommend a more focused "starter strategy" regarding how to proceed in the next 12 to 18 months. Reflecting on all the options we suggest a focused two-part game plan as follows:

Part 1 – Growing a Rural Maryland Philanthropcy Consortium. There are many potential players in a rural Maryland philanthropic development effort. We strongly recommend working with the Association of Baltimore Area Grantmakers and the Maryland Community Foundations Association to explore how the RMC, RMF, and your partners might work with these established groups to create a "rural philanthropy affinity group" and initiative. Securing institutional blessing, organizational support, and capacity building funding are foundational to a smart, robust, and sustainable rural philanthropy development effort.
Connecting the Part 1 and 2 strategy elements could be networking with the model state rural philanthropy initiatives we have flagged as motivators and resources.

Part 2 – Creating a Maryland REDPIN Initiative. We recommend use of a REDPIN like strategy to engage both rural foundations, nonprofits and community economic development interests as a way to create regional collaborations focused on both philanthropic and community economic development. One approach would be to create teams from each of the six rural regions. These teams would progress through an 18-month peer discovery, learning, and action planning experience organized around three peer events supplemented with pre- and post-activities and mentoring.

Combined, these two starter strategies could create vision, energy, commitments, and action both locally and with statewide partners. Part 2, the REDPIN activity, could inform and energize the Part 1 activity resulting in leveraging more resources, engagement, and progress.

Potential Models for the Maryland Strategy

There are many potential models of PBFs and CED groups are working closely together to vision, develop, and finance community and economic development projects, programs, and initiatives. Most of these models are specific to micro or metropolitan communities. However, there are a few models that are statewide and rural in nature. We offer the following models for rural Maryland's consideration:

- Minnesota
- Kansas
- Nebraska
- Iowa
- South Dakota

Minnesota. Thirty years ago (1986), the **McKnight Foundation** created six regional foundations in order to work "…to strengthen the communities and economies of Greater Minnesota…" (Greater = rural / non-metro). These regional foundations are referred to as "Initiative Foundations" (**www.greaterminnesota.net**)
As the name suggests, the design of these Initiative Foundations is intended to be pro-active and "initiate" community economic development programs such as venture financing. Another impressive design element of

the initiative foundations is their regional construction. The founders of these organizations understood the need for regional support and collaboration. Often working with volunteer based smaller communities, these regional foundations are able to sustain community capacity building and support development projects and programs. The following are some summary impacts over this 30-year period (from the website):

- 6 Unified foundations working to improve Greater MN
- $216 million in Grants inspiring Minnesotan communities
- $264 million in Local business investments
- 47,000 Quality jobs created

MINNESOTA Initiative Foundations
MAKING MINNESOTA GREATER FOR 30 YEARS

Kansas. Kansas, in many ways, best reflects the current environment in rural Maryland. While there is much to learn from Minnesota's Initiative Foundations, they were built from the start with an integrated community philanthropy and CED mission. Approximately 20 years ago, two important initiatives took shape in Kansas. The first was an initiative of the Kansas Health Foundation (a health conversion foundation) to develop Kansas' PBF infrastructure and capacity. The second initiative by the State of Kansas was the creation of NetWork Kansas. Today, these two initiatives have grown up and are beginning to explore strategic collaboration to mobilize charitable giving in support of business development in the full continuum of rural to urban communities.

KANSAS HEALTH FOUNDATION

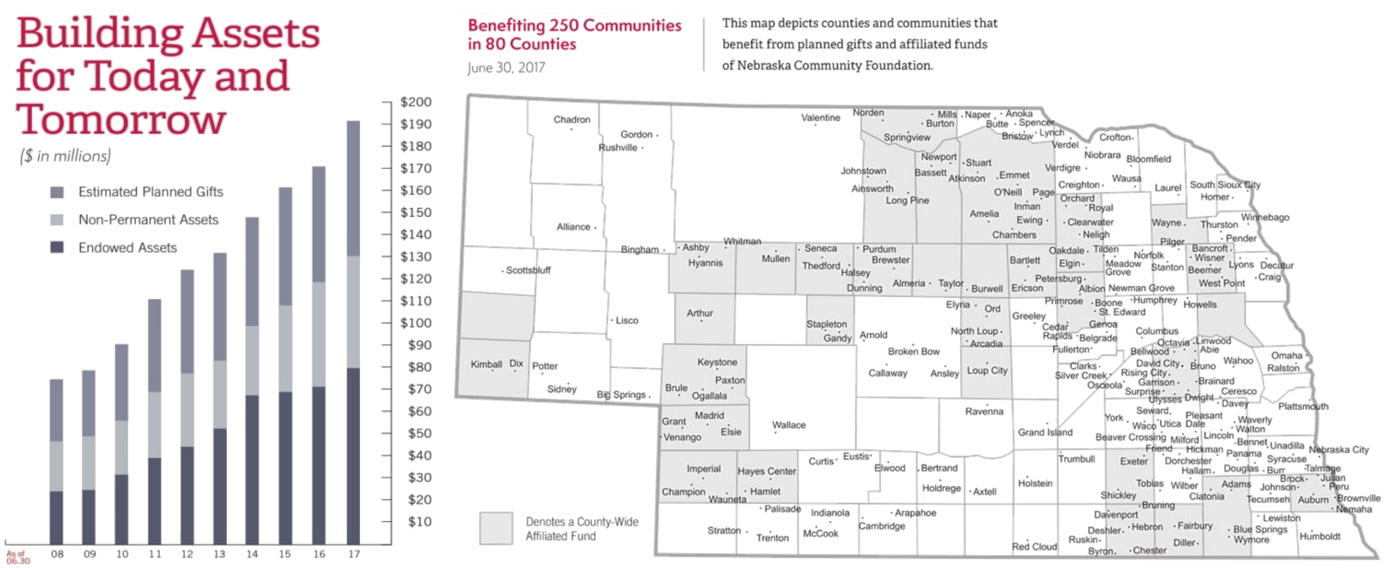
***Kansas Health Foundation Initiative**. Over the past 20 years, the Kansas Health Foundation (KHF) has invested nearly $20 million into Kansas's community foundations. These investments have included development and support of the Kansas Association of Community Foundations (Association). In partnership with the Association, the KHF has supported capacity building work with these PBFs. More recently, the KHF has completed a series of challenge grants to grow community foundation operating endowments, health focused endowments, and unrestricted endowments. Now, the KHF (working with NetWork Kansas, the Aspen Institute, and the Center for Rural Entrepreneurship) is visioning a multi-year "culture change" initiative with community foundations. The focus of this culture change is to help community foundations explore and move into CED activities. The KHF is considering employing Aspen Institute's and Center for Rural Entrepreneurship's Rural Economic Development Philanthropy Innovators Network model (REDPIN) as a central element in this longer-term culture change work.*

***NetWork Kansas**. For over 20 years, Kansas has been exploring entrepreneur-focused economic development. Early in this period, Kansas partnered with the Sirolli Institute and Ernesto Sirolli's entrepreneurship framework to foster business development and stronger economies in rural Kansas. Building on this learning, in 2004, the Kansas Legislature passed the Kansas Economic Growth Act. This Act created the Kansas Center for Entrepreneurship eventually doing business as **NetWork Kansas**. NetWork Kansas is possibly the longest running and most impactful rural focused entrepreneurship initiative in the United States. Today, NetWork Kansas is also working in urban and metro communities. Collaborating with the KHF, NetWork Kansas is now visioning a long-term strategy to work with PBFs to mobilize their capacities to first support increased capitalization for business development and eventually other CED activities (e.g., affordable housing, community facilities, child care, etc.).*

NetWork Kansas

Nebraska. Like the Minnesota model, the [Nebraska Community Foundation] (NCF) was designed from its origins to play a unique role in partnership with rural communities fostering community philanthropy. NCF now works with over 400 rural communities and organizations through an "affiliation" arrangement. NCF has used their TOW analysis to drive donor development and endowment building for community betterment. NCF has demonstrated that rural donors can be mobilized. NCF is now approaching $150 million (both current and prospective gifts) in assets spread among these partner communities and organizations. At just over 20 years old, this illustrates the level of progress that can be realized over a relatively short period of time. Two quick stories illustrate the power of the NCF model:

NEBRASKA COMMUNITY FOUNDATION



Shickley, Nebraska. *Shickley is defined by its school district and has about 650 residents. It is a farm-based economy. Over the past 20 years, Shickley and its Fund with NCF has grown nearly $5 million in endowments and supported over $5 million in community betterment projects (e.g., community center, school greenhouse and program, youth entrepreneurship camp, early childhood education center – birth to kindergarten). NCF has provided capacity building support and challenge grants to grow endowments. Today, leaders from Shickley are mentors to other rural* ***communities****.*

Red Cloud, Nebraska. *Red Cloud is a community of just over 1,000 residents in a farm-based rural county with less than 5,000 residents. It is also home to Nebraska author Willa Cather and the Willa Cather Foundation. Like Shickley, Red Cloud has been at this work for about two decades. Through its Fund within NCF and its partnership with the Cather Foundation, the community has moved significant CED activities (e.g., over $20 million invested in historic Cather buildings, hiring of a full-time heritage tourism economic developer, construction, and endowment of an early childhood center, etc.).*

THE WILLA CATHER FOUNDATION

NCF has just released their most recent performance metrics. These numbers illustrate what is possible with a powerful vision, deep and long-term commitment and a smart game plan:

Figure 5. Community Endowment Building

Performance Indicator	2007	2017	Change	Percent Change
Community -Focused Funds Building Endowments	88	130	+42	47%
Endowed Assets (Millions of $)	$14.3	$72.1	+$57.8	404%
Planned Gifts for Endowments (Millions of $)	$20	$36.8	+$16.8	84%
Expectancies for Endowments (Millions of $)	$34.3	$108.9	+$74.6	217%

NCF is a powerful model of moving to scale. Despite the strong growth illustrated above over the past decade, its scaleup is just beginning based on the following performance information from their 2017 report:

- 224 affiliated funds serving 252 rural communities
- 1,647 affiliated fund leaders (volunteers)
- Total combined assets of $151 million
- $87 million in endowed assets (17% growth over the past 10 years)
- 313 planned gifts totaling $65 million
- 39,42 contributions in the past five years
- $129 million in grant reinvestments in the last five years
- $291 million in grant reinvestments since 1994

Iowa. Iowa has a very unique but impactful strategy to grow its PBFs capacity. The State has dedicated gaming money to capitalize community foundations. Iowa also provides a state income tax credit for legacy giving. Over the past two decades, this strategy has resulted in significant PBF growth. We have worked with the **Community Foundation of Greater Des Moines** and the **Iowa Area Development Group** (IADG) with their 30 or so county community foundations or the **ICAN**. The Community Foundation of Greater Des Moines provides staffing and resources supporting its affiliates development. IADG is a statewide CED group with rural electric utilities as members. IADG and ICAN work closely supporting both community foundation development and CED projects and programs.

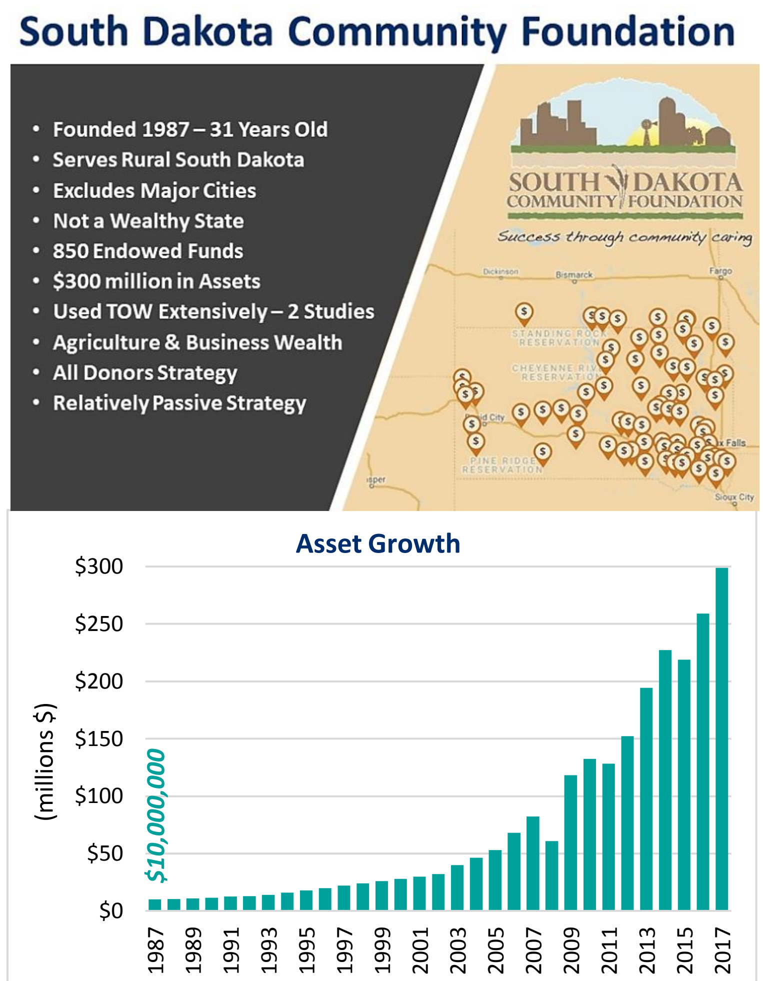
South Dakota

Like the Nebraska Community Foundation, the South Dakota Community Foundation has a strong rural focus and offers affiliation services to communities, organizations and donors through a family funds menu. In fact, NCF in large part was initially conceived based on the SDCF model and approach.

As the SDCF asset graph illustrates, this foundation and its many rural affiliates have experienced strong and steady growth over its 30-year plus life span. South Dakota Transfer of Wealth Studies (two have been completed thus far) have been instrumental in engaging prospective affiliate communities and developing legacy donors. The TOW opportunity was used by the foundation after the first study to aggressively undertake both affiliate and donor development resulting in significant asset growth. In an interview, Bob Sutton, former President and CEO, explained how SDCF used their TOW research to advance donor development.

Today the Foundation has over 850 endowed funds and significant geographic coverage across South Dakota. South Dakota is a rural state and the state's largest cities, including Rapid City in the west and Sioux Falls in the east, have their own community foundations. The SDCF represents another development model comparable to the Nebraska experience.

As part of our recommended strategy, we recommend that rural Maryland actively explore these four models for design insights and lessons learned before committing to your game plan.



Appendix 1 - Strategy Paper Definitions

Prosperity. In the Center's work we see sustained and broadly shared community prosperity as the end game for our community economic development work. A key aspect to a prosperous community or region is the creation of assets such as parks, a great downtown, good housing, schools, and the like. A key asset relates to the ability of residents in a community to grow their estates or wealth. Households with wealth have choices such as supporting their children's education, a secure retirement, or the ability to leave a job and start a business. Communities where residents have sufficient wealth can increase philanthropic assets that can in turn be used to support immediate and longer-term betterment work.

Strategy Development. Milan Wall with the **Heartland Center for Leadership Development** often makes the point that a community that visions its future and sets development goals is more likely to achieve those goals than a community that does not engage in this development process. Community vision and goals are part of a community development strategy. A strategy provides a road map for how we, as an organization or community, are going to work towards realization of our vision and goals.

Legacy Giving. Most giving is supported from annual earnings by households. This kind of philanthropy is important and may be a simple as buying a box of Girl Scout cookies or contributing one's tithing to their community of faith. Legacy giving is different. Legacy giving involves giving from a household's accumulated wealth or estate. The intent of this giving is to create a more permanent legacy through capitalization of permanent endowments.

Endowments. Endowments are fundamental to the role and mission of place-based foundations. Endowments create permanent funds managed in a way that they are inflation protected and capable of generating a predictable and steady flow of funds that can be used to support charitable purposes.

Place-Based Foundations (PBFs). Place-based foundations are U.S. Internal Revenue certified charitable organizations with a mission focused on a specific place-based community, region or state. Community foundations are possibly the most common and widespread example of place-based foundations. However, PBFs can include health care conversion foundations, family foundations and private trusts that have a community mission focus.

Community Foundations (CFs). Community foundations are over 100 years old. There has been strong growth in community foundations not only in the United States but throughout the world. As their title suggests, CFs are focused on the communities they service. Historically, CFs were a vehicle for donors in a community to create charitable funds without creating their own private foundation. Increasingly, CFs are becoming engines of community engagement and development.

Affiliate Funds or Foundations. A unique attribute of community foundations is their ability to create a foundation within the community foundation called an affiliate fund or foundation. For example, a host foundation like the Nebraska Community Foundation can create within its legal and financial structure, funds for communities and organizations saving them the cost and challenges of creating their own community foundation. Affiliates extend CF capabilities to smaller communities and organizations.

Community Economic Development (CED). Community Economic Development refers to a wide range of community focused activities ranging from workforce development to increasing affordable housing to gap financing for entrepreneurial ventures. Over time place-based foundations have become stronger partners with CED organizations supporting their community building efforts. PBFs are supporting convening activities engaging development project partners, supporting through grants research or feasibility studies and even providing gap funding through grants or investments in actual development projects.

Culture Change (CC). Culture is deeply rooted and shapes our values and mission. Community foundations historically have focused on meeting the needs of donors in a community. While this mission continues to be important for PBFs, many are exploring new missions such as becoming a more -pro-active community economic development player. Culture change is the process that a community, organization or institution goes through to realign their mission and values.

Community Capacity Building (CCB). Capacity is often defined as the “ability” to engage in work. In America, unlike most other developed countries, the primary responsibility for community economic development is a local responsibility. Community capacity building the process through which a community develops its capacity to more effectively engage in its own development CCB activities can range from leadership development to the creation of a development strategy to the establishment of gap financing capitalization resources.

Appendix 2 – More on REDPIN

Foundations active in rural places want to see their work lead to a stronger set of outcomes for the rural communities they care about. They want to build economically prosperous regions that also help low-income families, businesses, and communities get ahead.

Among the regional institutions that hold the vision of "a prosperous economy for *all*," place-based foundations, especially community foundations, are well situated to play the role of change agent. Many are driven by their missions to advance prosperity and stronger livelihoods for all. And community foundations also bring a comprehensive and diverse set of tools and resources to the partnership table. **What change *might* we see in rural America if more** place-based foundations embrace a role in economic development – and practice Economic Development Philanthropy?

What is…
Economic Development Philanthropy?

Place-based foundations mobilizing their full range of assets to build regional economies that produce prosperity for all.

To build the record and expand the practice of EDP, LOCUS Impact Investing and the Aspen Institute Community Strategies Group designed an 18-month action-learning process that launched in 2017 with an initial cohort of nine foundations selected from across the country: The ***Rural Economic Development Philanthropy Innovators Network (REDPIN).*** Together these foundations explored innovative roles place-rooted foundations are taking in economic development and moved forward with targeted economic development action in their own region. The REDPIN approach builds on decades of successful peer-to-peer learning we have managed – which has led to significant action and results for scores of foundations across the country.

Based on the feedback and learning from the inaugural REDPIN cohort, we are prepared to offer a similar REDPIN peer learning experience in more targeted geographies, like a state or single region. Each REDPIN will offer participating foundations a framework for identifying the best leverage point(s) for foundation action, expose foundations to a range of relevant and inventive current practices, and provide them with an environment of peer advising and support that helps each foundation take productive EDP action. To better target what works in their context, over the course of the Network, each participating foundation will analyze their local economic system and apply community and economic development tools to help low-income families, places and firms get ahead. The Innovators Network will also build and refine understanding about what it takes to implement EDP with excellence; develop new EDP tools to share with other foundations, policymakers and economic development practitioners; capture a wide range of EDP stories to provide inspiration to the field; and advance the practice of doing economic development differently – that is, in ways that both build regional resilience and address inequality.

REDPIN Objectives

- Explore how "economic development can be done differently" to help reduce inequality and poverty even as it increases regional resilience and prosperity.
- Help each participating foundation identify and make progress on its specific actions to advance rural family, business and/or community economic success.
- Apply and improve an action framework for determining why, where and how to invest foundation non-financial and financial resources to improve rural economic outcomes.
- Engage the expertise of foundations that are already practicing and innovating EDP, along with economic development and family economic success experts, from both within and outside the Innovators Network.
- Improve and evolve the framework through our collective learning and action in order to build a stronger economic development toolkit and strategy set for use by the Network and the field.

Advance the field of EDP by capturing and disseminating the learning and stories surfaced in the Network.

REDPIN Structure

- Six to nine foundations will comprise the peer Network – over an 18-month duration.
- One two-day initial site visit by the facilitation team with each participating foundation.
- Four in-person gatherings (one every four months).
- Coaching support between in-person gatherings.
- Three-person teams from each foundation participate in all the gatherings – must include at least the foundation CEO and one board member; additional member may be other foundation board or staff member or key local partners. (The team may expand beyond three at the foundation's discretion and expense.)

Value for Rural-Focused Community Foundations

- Opportunity to focus and to take action on your foundation's role in advancing economic development and prosperity in your region.
- Access to innovative foundation peers within and outside the cohort who are *already* practicing EDP and successfully producing prosperity outcomes.
- Access to expertise and technical assistance via invited experts and the LOCUS-CSG staff and resource network.
- Deeper exploration via virtual exchanges on specific challenges or issues of interest to Network members.

- The honest advice and counsel of peers who are deeply engaged in this work.

What Community Foundations Must Commit

- Muster a consistent team of at least three community foundation leaders or key partners, including CEO and at least one board member.
- Entire team must attend all the convenings *(every effort is made to consult teams before setting meeting schedule);* and do advance preparation for the convening (team interviews, local research, presentations and reflection).
- Develop a short-term "EDP action plan" at each convening – and work on the plan back home.
- Cover all travel and lodging costs for your team.
- Based on the national REDPIN experience, we suggest that each community foundation be asked to put some "skin in the game" beyond their travel and lodging costs.

What a State or Regional Host Must Commit

In addition to providing financial support for the facilitation team, each state or regional host should be prepared to:

- Help market the peer learning opportunity.
- Actively participate in the application and selection process.
- Provide logistical support to the facilitation team (i.e., identify and negotiate with potential venues).
- Cover the costs of each in-person convening not covered by the foundations negotiated contributions.

To Learn More

To discuss how REDPIN might bring value to foundations in your state or region, contact Deb Markley (919.932.7762), LOCUS Impact Investing, or Janet Topolsky (202.736.5848), Aspen Institute Community Strategies Group. We are happy to answer questions and share more details including stories from the national REDPIN cohort.

Rural Economic Development Philanthropy Innovators Network

About Us

LOCUS Impact Investing is a national social enterprise launched by Virginia Community Capital (VCC) in 2017, following acquisition of the nationally recognized Center for Rural Entrepreneurship, a nonprofit organization headquartered in Lincoln, Nebraska. For almost two decades, the Center has provided research and analysis related to community development philanthropy, including Transfer of Wealth™ Opportunity Analysis. LOCUS brings together the expertise of the regulated, certified CDFI (VCC) and its 12-year legacy of successfully deploying capital in underserved communities, with the Center's field-tested expertise and resources to help place-focused foundations identify and implement strategies that create a more prosperous community. LOCUS provides a continuum of solutions — from research and analysis to local investing services — to empower place-focused institutions to invest their capital locally to build prosperous, vibrant communities. To learn more about LOCUS, visit www.locusimpactinvesting.org. Information on the LOCUS team appears at the end of this report.

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