
Community Philanthropy in Appalachia

The current and potential development role and impact of community foundations in Appalachia

Prepared for

**Consultation on Community
Philanthropy in Appalachia**

Appalachian Regional Commission

March 13, 2012



THE ASPEN INSTITUTE
Community Strategies Group

What exactly is the...

Aspen Institute Community Strategies Group?

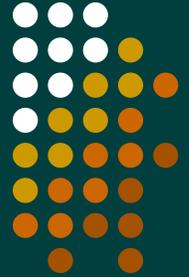
- We help community leaders and organizations address hefty challenges and capitalize on opportunities.
- Our Community Foundation work – since 1993:
 - Defined Rural Development Philanthropy and helped develop its practice
 - Pioneered research on building and sustaining Affiliates
 - First to explore small-market CF Business Models
 - Helped lead the field's Community Leadership work
 - Worked with scores of CFs over the last 19 years
 - Going DEEP with small-market community foundations!

Six Things to Talk About Today



1. What are community foundations and where did they come from?
2. What tools do community foundations use?
3. How can geographic affiliates expand the coverage of community philanthropy?
4. Why should development organizations care about community foundations?
5. What's the status of community foundations in Appalachia?
6. What are the primary barriers and opportunities for community philanthropy in Appalachia?

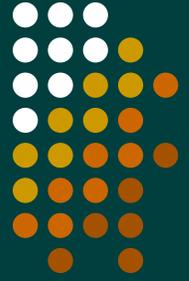
1. What are community foundations?



A primary form of
community philanthropy
in the United States

...and Canada...and, more recently, the world

What is a community foundation?



Generally stated...

A nonprofit organization that promotes giving and acts as a leader to enhance the quality of life in the particular geographic region that it defines as its “community.”

The Official Definition of a United States Community Foundation



A community foundation is:

- a tax-exempt, nonprofit, autonomous, publicly supported, nonsectarian philanthropic institution...
- with a long term goal of building permanent, named component funds established by many separate donors...
- for the broad-based charitable benefit of the residents of a defined geographic area, typically no larger than a state.

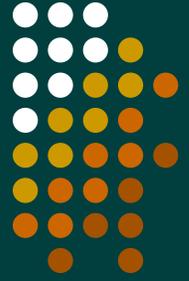
What is a community foundation?

Defining Characteristics

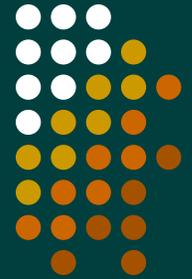


- Operates within and for a specific geographic area
- Governed by a board widely representative of that area
- Acts on a wide range of issues and ideas in that area
- Exercises leadership on critical community issues
- Both receives gifts and makes gifts
- Many donors – *Each donor chooses the focus for their gift*
- Many kinds of funds – some endowed, some not
- Focus on **The Power of Endowment**

A little history...



- First CF founded in Cleveland in 1914 (*98 years ago*)
- Focused on assembling financial assets to address critical community issues
- Idea quickly expanded to most larger metro areas
- Tax advantages drove them from a community-centric focus to a donor-centric focus
- In the 1990's, other cheaper vehicles emerged to serve donors just interested in tax advantages

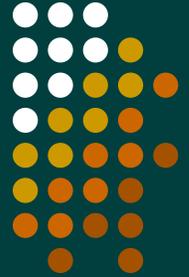


By the 1990's

Many CFs again put community first

- More and more CFs turn back to – or start with – a community-centric focus
 - Some focus primarily on **community development**
- These CFs redefine services to donors as an important supporting function – ***a means to other ends*** – not the driving force behind their activities
- Many of these CFs serve rural areas
- Major foundations invest heavily in the creation of community foundations across smaller urban and rural American markets – and abroad

Community Foundations Today



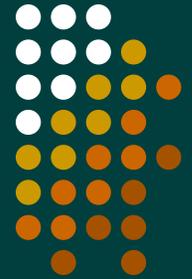
- About 750 U.S. community foundations
- Growing movement abroad – *1,175 in 46 countries outside the U.S. (this is new)*
- Over *\$45 billion* in assets under management in the U.S.
- A fast-growing segment of philanthropy – ***especially in rural areas*** here and abroad
- More and more CFs are taking leadership roles on tough community development issues

Factoids for you...

Community Foundation Movement



	1988	2008	In just 20 years:
Community Foundations Worldwide	300-350	1,441	Increase: 400%
Outside the U.S.	Around 50 <i>Almost all in the U.K. and Canada</i>	600-700 <i>51 countries</i>	Increase: 1200%
U.S. Community Foundations	250-300 <i>Over 80% of the worldwide total</i>	750-800 <i>Only 55% of the worldwide total</i>	Increase: 300%

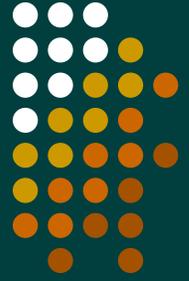


In short:

A Community Foundation is a very flexible, useful and popular form of community philanthropy.

A great mechanism for establishing and growing permanent funds that a community can use to help create its desired future –
forever.

What tools do community foundations use?

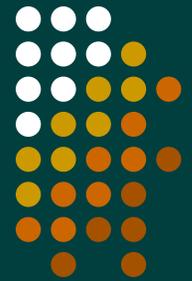


CFs can be a permanent source of flexible money for the community to tackle its toughest problems

...and a great way to organize a community to help itself.

Tools and Features

Primary Activities and Tools



- **Accept charitable gifts** of money, property and other resources from many donors
- **Establish new funds** or add gifts to existing funds
- **Make grants** to nonprofit organizations
- Create, sponsor, partner with or operate a wide range of community **initiatives**
- **Convene** the community to consider ideas, issues, challenges and opportunities
- Some even **operate sophisticated programs** taking on important tasks like regional planning, economic development and workforce development

Tools and Features

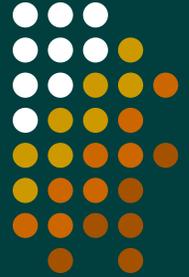
Core Financial Feature: Fund



- A “fund” is:
 - Any **one** of the many separate accounts set up at and managed by the community foundation
 - Each fund is set up for a particular **purpose**
 - Donors can give to **more than one** fund
 - Funds can have **more than one** donor
 - **Grants** are made from every fund
 - Typical community foundations, once established and growing, eventually hold **hundreds** of funds

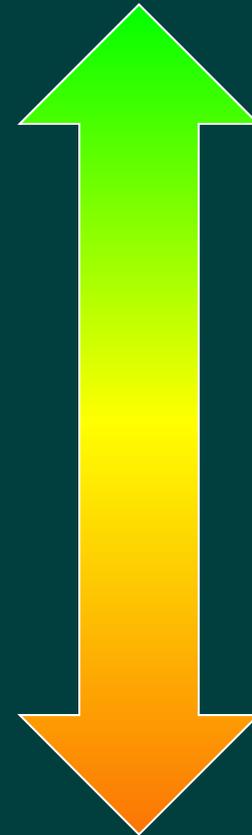
Tools and Features

Main types of funds hosted by CFs



- **Unrestricted Funds**
- **Field of Interest Funds**
- **Geographic Affiliate Funds**
- **Donor-Advised Funds**
- **Scholarship Funds**
- **Designated / Agency Funds**
- **Operating Funds**
- **Program Funds**
- **Fiscal Sponsorship**
- **Management Services**

Most Flexible



Least Flexible

Tools and Features

Core Financial Feature: Endowment



An “endowment” is:

- A **permanent** fund. It is like a savings account in which you *never* spend the amounts you deposit.
- But...you **DO** use a **portion** of the annual **interest** earned on the fund to make grants or fund activities in the community.
- You also use a small percentage of the earnings to cover the foundation’s **administrative** costs.
- You plow the **rest** of any earned interest **right back into the fund** so that it will grow over time.
- Therefore, the endowed funds **grow in significance over time!**

YEAR 1

Establish a **Named Fund**

\$10,000 gift

Initial gift has
been invested:

YEAR 15

\$9,000 in
cumulative grants
and services

\$16,000 balance



1 TIME

YEAR 25

\$19,000 in
cumulative grants
and services

\$23,000 balance



2 TIMES

YEAR 50

\$66,000 in
cumulative grants
and services

\$57,000 balance



6+ TIMES

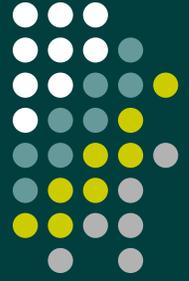
The Power of Endowment

One gift, many generations

assumes 4.5% annual payout and 8.5% rate of return

Source © 2008 Midwest Community Foundations' Ventures

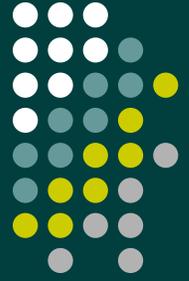
Community Foundations Are Wondrously Various...



All Community Foundations . . .

- Attract endowments (and pass-through funds)
- Invest the funds created by these gifts
- Make grants from the proceeds of the endowments (or from the pass-through funds)
- Consist of gifts from many individuals and institutions
- Are governed by a volunteer Board of Directors

Community Foundations Are Wondrously Various...



Only Some Community Foundations...

- Run complex statewide, regional or community-based development programs
- Seek to affect public policy on issues affecting their communities or region
- Build affiliates (*local advised geographic area funds*)



In short:

Any Community Foundation can be whatever it wants to be – as long as it commits to figuring out how to do it and how to support it.

How can geographic affiliates expand the coverage of community philanthropy?



Geographic Affiliates offer a *(relatively)* new way to organize community philanthropy that makes it far easier to serve smaller, less wealthy and more remote places

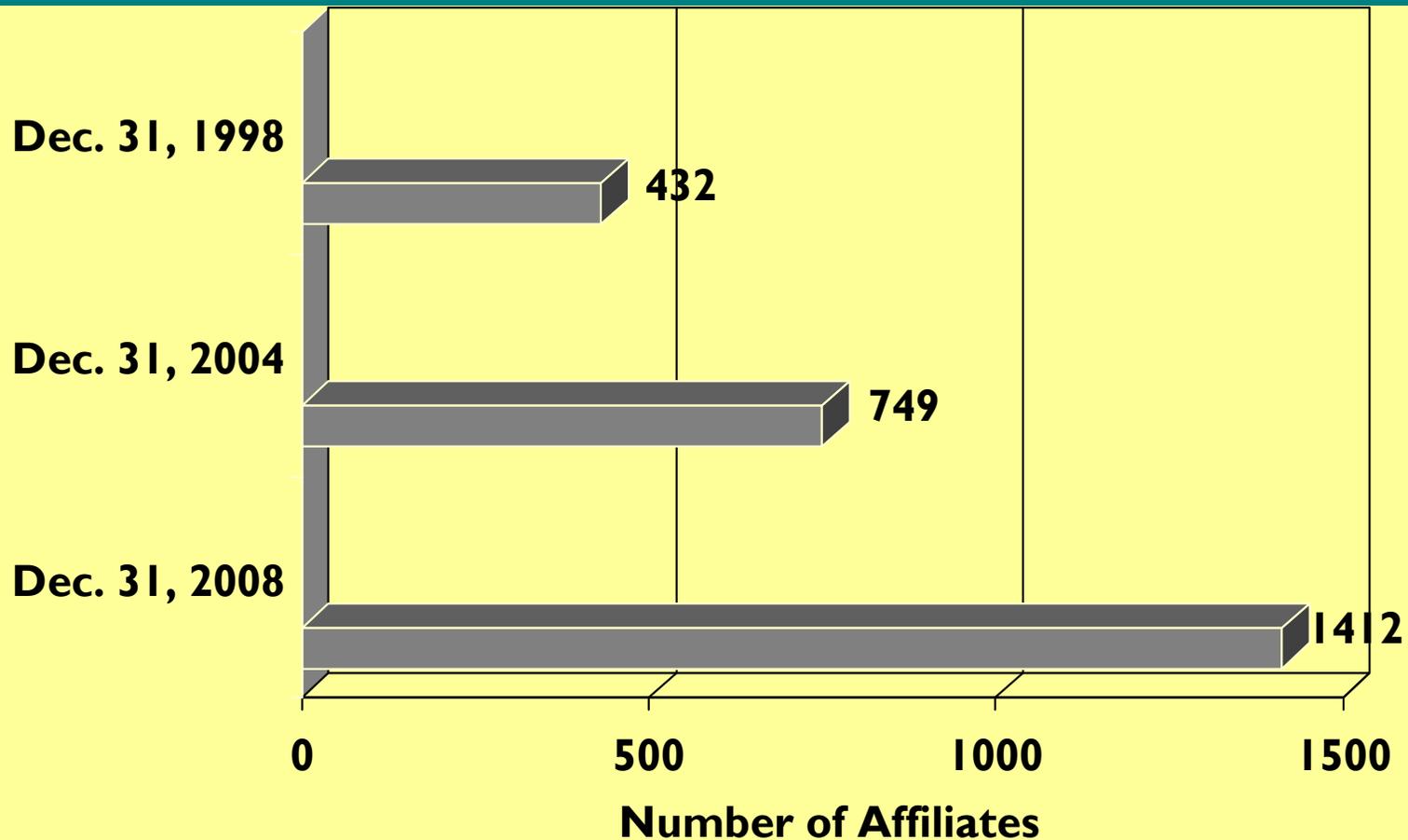
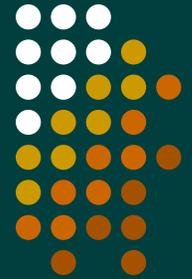
What is a geographic affiliate?



- In the U.S., many community foundations have geographic affiliates
- A geographic affiliate is:
 - a component fund (or collection of component funds)
 - established within or by the “lead” community foundation
 - that serves a defined geographic sub-region within the lead foundation’s area
 - and is organized and built under a common advisory group from that sub-region

Community Foundation Movement

Geographic Affiliates: Growing Trend

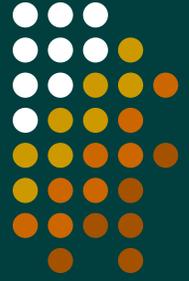


That's a

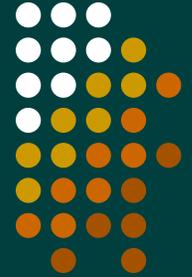
**227%
increase**

**in just
10 years!**

Why are affiliates particularly useful in rural areas?



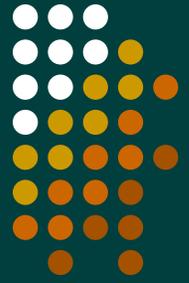
- Affiliates are faster, easier and cheaper to set up
 - Affiliates save tens of thousands in startup costs
 - Affiliates can be set up in days rather than months
- Affiliates are far easier and cheaper to administer
 - CFs have many costly and complex requirements
 - Affiliates bring economies of scale to even the smallest places
- Affiliates save lots of volunteer time and effort
 - They save precious time for the really important stuff
 - They hand off tough details and hang onto what matters most
- Affiliates can be economically sound even in tiny places



In short:

Affiliates make community philanthropy a viable and cost-effective option in places where it would otherwise be difficult or impossible.

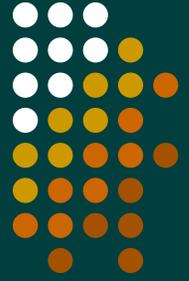
Why should development organizations care about community foundations?



They can be a permanent source of flexible money for the community to tackle its toughest problems

...and a great way to organize a community to help itself.

Community foundations can take on a range of important community roles

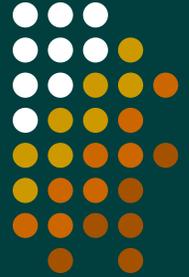


**Charitable Bank
Community
Philanthropy**

**Community
Leadership
Philanthropy**

**Community
Development
Philanthropy**

Community Foundations can:



- Create a place where a community can organize and collect resources to help itself
- Attract flexible funds that can be used where tax dollars may not readily flow
- Capture resources that would otherwise be lost to the region (*transfer of wealth, grants, etc.*)
- Engage and energize an expanded set of leaders
- Provide a nonpartisan venue for communities to forge solutions to potentially divisive issues
- ***Grow hope!***



In short:

Community foundations (and affiliates) are an important and useful tool for community development – especially in places with limited financial and human resources to bring to bear.

What is the status of community foundations in Appalachia?

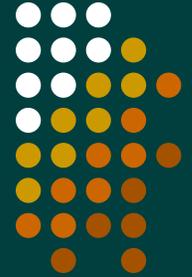


Who is doing what, where and what are the major initiatives that can help?

Status of Appalachian community foundations



- About 100 CFs serve various parts of Appalachia
- We can't estimate their funds for Appalachia
- Larger regional centers are mostly covered
 - Many rural and remote areas lack a CF or a willing host
- Several regional CFs serve parts of the area
 - Some headquartered outside, some within
 - They are not equally active across their service areas
- Most are traditional donor-focused CFs
 - Some are pioneers in serving rural areas
 - Some focus on community leadership & development



In short:

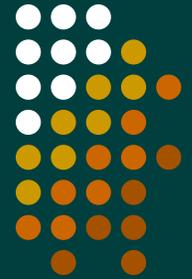
Appalachia's community foundation infrastructure is spotty – with some great institutions but also with lots of unserved or underserved areas

What are the primary barriers and opportunities for community philanthropy in Appalachia?



Who is doing what, where and what are the major initiatives that can help?

Several special opportunities focus on community philanthropy...e.g.,



- Appalachian Rural Development Philanthropy Initiative
 - Developing affiliates covering additional distressed rural counties in Kentucky
- Endow Kentucky
 - Tax credits for contributions to community foundations and affiliates
- Kentucky Philanthropy Initiative
 - Promoting the growth of strategic philanthropy
- Kentucky Transfer of Wealth Study
 - Quantifying community philanthropic potential and challenges

Appalachia faces several significant community philanthropy barriers



Geography

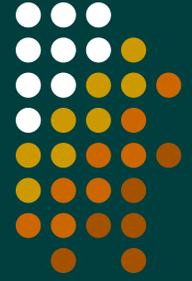
- Rugged geography makes even short distances into long treks
- Patterns of association often follow transportation routes rather than political boundaries

Infrastructure

- Many areas are not covered by an experienced host CF
- Some areas are not covered by a Regional Association of Grantmakers or other CF mutual-support organization

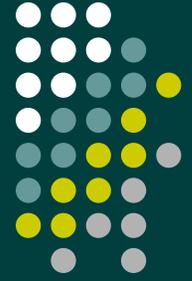
Capacity

- Few existing CFs have strong affiliate hosting capabilities
- Most existing CFs struggle to find funding for core staffing needed to rapidly grow, develop and capture wealth transfer



In short:

Appalachia has both strong opportunities and significant barriers in developing additional community philanthropic capacity.



...questions?

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