



A Primer
**FIELD OF INTEREST FUNDS
& ECONOMIC DEVELOPMENT**

Philanthropy & Economic Development

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Background & Introduction

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Our Guide to **Field of Interest Funds and Economic Development** provides a powerful strategy for marrying community philanthropy with entrepreneur-focused economic development. Unlike business attraction, where there are clear limits to the ability of communities to use charitable donations for economic development – there are clear IRS (U.S. Internal Revenue Service) rulings and precedents for using tax-advantaged charitable gifts through foundations and non-profit organizations for entrepreneur-focused economic development programs. As you might expect it is wise to do your research and construct your programming within what is permitted by the IRS. Working with a certified area community foundation can ensure your compliance and protect your donors.

Questions & Additional Information

Don Macke - RUPRI Center for Rural Entrepreneurship

402.323.7339 - don@e2mail.org

www.energizingentrepreneurs.org or www.rupri.org

DWM:TOW:KFB2:SBA-Field of Interest Funds

Terminology Primer

Restricted & Unrestricted Funds	<p><i>Funds within community foundations can be restricted or unrestricted. As the words imply restricted funds have limitations placed on their use by either the donor or the party setting up the fund. For example, a donor may leave \$250,000 for an endowment that can only be used to create scholarships for local high schools students seeking nursing education. Field of interest funds are a form of semi-restricted fund. Conversely, unrestricted funds leave the use of these resources to the discretion of the foundation or an advisory group.</i></p>
Endowed or Pass-Through Funds	<p><i>Endowed or permanent funds imply that the “corpus” or the financial resources within the fund can not be used and only earnings off of the fund can be used for programs or grant making. Pass-through funds are typically raised for projects like a new library wing with the idea that all the gifts received will be used including both the corpus and earnings.</i></p>
Donor-Advised vs. Field of Interest Funds	<p><i>Most community foundations can create donor-advised funds where there is a single donor that typically leaves a major gift and the donor can advise the foundation as to grant making and program uses. The foundation has ultimate decision-making authority, but typically tries hard to respect the wishes of the donor. Conversely, a field of interest fund collects donations from multiple donors, has board that advises the foundation regarding program or grant making decisions and focuses support of on defined area such as “supporting youth entrepreneurs.” Significant discretion is allowed to the advisory board in most cases.</i></p>
Organizational vs. Community Funds	<p><i>Most community foundations will host both organizational and community funds. As the words suggest – organizational funds support a particular non-profit group like a 4-H Council and community funds focus on a specific place or neighborhood.</i></p>

*So now let's take a look at **field of interest funds** and how this vehicle can be used to provide both immediate and sustainable funding for entrepreneur-focused economic development.*

Why Field of Interest Funds?

What is a “Field of Interest Fund”?

As the title suggests this is a fund capitalized through charitable donations focused on supporting a special area of interest – in this case entrepreneurship programming. Typically these funds have greater flexibility than a specified program fund where a donor gives to support say scholarships for students studying entrepreneurship. With these funds the advisory board can support a wide range of programming as long as it fits within the fund's mission.

America has just survived possibly the worst economic downturn since the Great Depression. Pull-backs and cut-backs are widespread and deep. Economic development organizations and programs have not been immune. Even before the recession there was under-capitalization for most economic development organizations and programs. Bottom line – there is a critical need to increase funding, but more importantly – flexible, stable and secure funding. As your community works to grow your entrepreneurship game plan, ensuring proper capitalization you can count on long-term is essential. **Remember, a primary reason why economic development strategies fail is funding is not adequate or sustained.**

Traditional sources of economic development funding are challenged today. Start-up grants are just that -- they can help you begin a program and then demand you find a way to sustain it. Unless you can create a sustainable funding strategy, your efforts are compromised and unlikely to realize desired impacts. **Field of Interest Funds** (or “funds”) can become a core feature of this funding strategy.

Donors are unlikely to step up and pledge major endowed gifts for even the most visionary programs. But typically there are those in your community who are willing to provide seed funding. By creating a Fund you can begin the all important process of education and commitment building. By combining multi-year small underwriting gifts with a strategy to create legacy donors and endowments you can plant the seeds necessary for success.

We will talk more about this approach to marry underwriters with legacy donors later in this Guide.

Another reality is that donors tend to give to specific purposes. It takes a long, deep and trusting relationship to secure an **unrestricted legacy gift**. The field

of interest fund can provide the donor greater confidence as to how their gift will be used (e.g., growing local entrepreneurs) while providing greater flexibility as to how it is used (e.g., specific programming). Our field experience suggests that this approach is very promising and can accelerate the development of legacy donors.

While our work is emergent, we believe there is a powerful connection and giveback opportunity by engaging successful entrepreneurs in your game plan. Successful entrepreneurs appreciate the power of people like themselves and once they have succeeded they often have the capacity for giveback and in some cases legacy giving. But successful entrepreneurs are pragmatic and practical. You need to engage them and seek their counsel and **prove-up**. By proving-up we mean demonstrating that their support can make a real difference. This takes time, hard work and demonstrated success with your program. The time-frame is typically five to seven years from initial engagement to significant legacy gift.

Gerald Strom

For the past decade we have had the honor to work with Dickinson State University (DSU) in Southwestern North Dakota. Today DSU is home to the Strom Center for Entrepreneurship. This Center is an innovative force in development in this rural region. Gerald Strom went to DSU and he loves DSU. Working with then DSU President Lee Vickers, Mr. Strom made a major legacy gift to create DSU's entrepreneurship center. Mr. Strom is a successful entrepreneur. He became engaged in DSU's commitment to entrepreneurs and in giving back is making a difference.

Gerald Strom is a remarkable human being. But to be honest, based on our field work, there are thousands of Gerald Stroms across rural North America. Identifying them, building meaning relationships with them and opening the door to them to give back to what they love (i.e., their communities and entrepreneurship) represents a powerful funding opportunity.

The table on the next page highlights some of the key considerations you should review and address in creating field of interest funds.

Field of Interest Fund Considerations

Charitable Status	<i>Anyone can give to economic development. But the Federal Government has created an effective vehicle for giveback by enabling community foundations and field of interest funds. Tax write-offs will not be the prime driver for giveback (passion for what you are doing is the key), but having a charitable status can enhance willingness to give and often increase the size of a gift.</i>
Giveback Case	<i>There are two primary reasons people give. First they believe in the mission of what you are doing and that is can and will make an important difference. Second they give to people and organizations they believe in and trust. Building a giveback case that passionately communicates both elements is key.</i>
Management Trust	<i>Concern about misuse and fraud is part of this landscape. Working with a certified and well-managed community foundation is essential. Donors, particularly larger donors, must have confidence that their gifts will be well managed.</i>
Advisory Board	<i>A particularly important element for success is selecting and supporting a strong advisory board. This board must be able to help with donor development and ensure the prudent management and deployment of spending from the fund.</i>
Underwriters & Legacy Donors	<i>Targeting donors who will provide smaller and short-term underwriting (three year annual pledges for example) that can be cultivated into legacy givers is a key strategy element. It takes time, patience and good work to make this game plan happen. Underwriters need to be kept informed and doors open for guidance. Good performance coupled with effective communication is essential.</i>

Putting Field of Interest Funds to Work

The table above provides some sound advice for creating effective field of interest funds. There are many building blocks, but we believe three are foundational:

1. Vision for Impact
2. Game Plan & Execution
3. Tracking & Demonstration Progress & Impact

Vision for Impact

We tend to focus on our great “program” or “strategy.” While this information is important, entrepreneurs who are also donors want to know your vision for impact. In other words – if I give you this support what do you hope to accomplish. Having a compelling, clear and achievable vision for impact is so important to building a relationship with potential donors.

Game Plan & Execution

Entrepreneurs are also “nuts and bolts” people. You do not need a 100 page business plan. But you need solid answers that address your **game plan** and how you will **execute** it. Keep it focused and as brief as you can. Remember, most folks will not listen for more than a few minutes or read more than a few pages initially. As they become interested be prepared to go into greater detail and be open to input. You want engaged donors and they may offer some advice that you should be open to considering. If they are too directed and want to micro-manage your efforts, they may not be a good fit as a donor.

Remember – not all gifts are worth taking.

Tracking & Demonstration Progress & Impact

Okay you have opened the door a crack and there is interest the key to closing the deal is demonstrating that you have clear performance benchmarks, will track progress against these benchmarks and communicate (at least annually – preferably quarterly) your impact progress. *We have tools and guides for establishing realistic performance benchmarks and communicating your progress.*

Ironically a major reason why an initial underwriting donor does not become a legacy donor is poor communication. Too often we hear from donors when we are doing evaluation work that “I was interested and I wrote my initial check and then I did not hear from them again until they asked for the second check.” Developing and executing a simple but effective communication strategy is as important as your success with your entrepreneurship game plan. Without sustained funding your ability to achieve your goals is compromised.

Entrepreneurs

There is a lot of mythology around entrepreneurs. In America this idea of “self-made successes” abounds. But any successful entrepreneur will be candid and tell you that many folks helped them get where they are today. They understand at a very personal level the keys to their success. These are the entrepreneurs you want to reach out to and engage. They will be more open to the idea that helping newer entrepreneurs is a great idea.

Steps to Creating a Field of Interest Fund

<p>Step 1 Cause & Champions</p>	<p><i>First there must be a charitable cause where there is passion and champions. Main street revitalization, youth attraction and economic development are among some of the relevant causes that become the focus of creating a foundation based field of interest fund. As is the case in all successful development – passionate champions who become leaders make the difference in making something happen.</i></p>
<p>Step 2 Foundation & Field of Interest Fund</p>	<p><i>Next you need to partner with a community foundation that is willing to host a field of interest fund and work with you and your fellow champions. Each foundation has its own rules and fees. Do your homework and make sure you have a good fit. Check with some other field of interest funds to get their lessons learned. A little research now will pay great dividends later.</i></p>
<p>Step 3 Challenge Grant & Donor(s)</p>	<p><i>In most cases champions will line up or become a challenge grant donor. The challenge grant donor(s) will make a private gift to the field of interest fund with the requirement that it be matched dollar for dollar or two dollars per dollar making the gift reality. The challenge grant creates an opportunity that others in your community can rally around.</i></p>
<p>Step 4 Meeting the Challenge & Education</p>	<p><i>The next step is to meet the challenge grant by securing other gifts and lining up additional donors. While making the challenge is an important goal to achieve, it is not the most important goal. How you meet the challenge grant can create awareness, enrich the focus of your fund and create the opportunity for giving now and into the future. Use the process of meeting the challenge as an educational or marketing opportunity to broaden engagement and support within your community.</i></p>
<p>Step 5 Fund Capitalization</p>	<p><i>Chances are good that the challenge grant and match will create a nice starting point, but not enough resources to really support your mission. Dedicating time and energy in partnership with your host organization to identify, target and begin developing a pool of donors is important. It may take between three to five years to realize significant gifts that hold the potential for substantial grant making or program support.</i></p>
<p>Step 6 Strategic Grant Making</p>	<p><i>Set up your fund with both an endowment and pass-through capability. The sooner you can begin supporting programs or making grants the better as it will help with future donor development. A good starting point is to have 50% of all early gifts available for immediate use and 50% set aside in an endowment where only earnings will be used. Being smart about early grant making (i.e., strategic) can be critically important to demonstrate the value of your fund and the cultivation of new and more committed donors.</i></p>



The late Rudy Ellis accepts his recognition as a member of the NCF Legacy Society.

Rudy Ellis

Rudy Ellis was a life-long resident of Northeast Nebraska. He was a farmer. He kept to his own business. He was a Garrison Keller kind of farmer – single, worked hard, was thrifty, saved and invested well. Most folks would not have seen Mr. Ellis as a legacy donor. In fact he was not planning to give back to his home. He was not sure that his home communities had much of a future. But about 10 years ago there were stirrings in Holt County Nebraska. A group of civic and business leaders embraced Home Town Competitiveness (HTC) and its framework for building stronger communities. One of their first actions was to create a county-wide

leadership development program. It is important to understand at this point in our story that Holt County is a geographically large county with multiple cities and villages. Tradition of collaboration and “county-wide” cooperation is weak. These leaders felt that a county-wide leadership program might begin to build relationship and bridges. The first leadership class was a winner and their class project was ambitious. They decided they would work to create a county-wide economic development organization. Great idea, but a very challenging undertaking.

It took time and lots of effort, but they succeeded with their project. The Holt County Economic Development Organization was birthed several years ago. There was the supportive old guard, but this development movement was energized by some amazing young adults like Nicole Sedlacek (now their paid economic developer). Nicole and her partners began to make progress. The local newspapers were full of hopeful stories. The local radio stations covered their events and there was a growing sense that something good was happening. Apparently Rudy Ellis was listening and watching. One day he approached a local attorney (who was part of the Nebraska Community Foundation and the local community fund) and indicated he wanted to give back.

In 2006 Mr. Ellis donated \$2.3 million to create the Rudolph H. Ellis donor-advised fund with the purpose of supporting entrepreneurship and people attraction in North Central Nebraska. Last year the Ellis Fund made its first grants and provided funding to hire Holt County’s first full time business coach. Every year the Ellis Fund will support this mission giving Holt County reliable funding for their entrepreneurship game plan.

Parting Thoughts

The intentional linkage between economic development and philanthropy is not new, but it is still somewhat rare in rural areas. The opportunity is promising, but more work and success must be done before this opportunity can become proven best practice. We hope this Guide is helpful to those rural communities in North America wanting to secure new, significant and sustained funding for your entrepreneurship programs. In parting we want to share an emerging story, maybe a best practice in a few years from Pickaway County Ohio.

Pickaway County Ohio

Pickaway County is located just south of metropolitan Columbus. The northern part of the county is seeing significant suburban development with strip malls and track homes. The southern part of the County is part of Appalachian Ohio with chronic poverty, but a rich family and community based culture. In the middle is the primary city of Circleville where the changing winds of manufacturing have created both challenges (factory closures) but also opportunities (new industry and expansions).



A short decade ago a civic leader by the name of Shirley Bowser discovered through the W.K. Kellogg Foundation (where she was a board member) Home Town Competiveness. HTC was new and it was still finding its legs as a community building strategy. Shirley was motivated to stimulate visioning in her home county. She recruited a diverse collection of civic, educational and business leaders that traveled to Nebraska and spent a week with the HTC team. They went home and created PCN or **Pickaway Competiveness Network**. They had already created the **Pickaway County Community Foundation** or PCCF. PCCF was affiliated with the Columbus Community Foundation. These two key institutions went to work and over the intervening years have accomplished much.

Beginning last year PCCF and PCN created three working groups focused on three strategic priorities that emerged from their county-wide visioning – K-16 Education, Agriculture and Leadership. Based on updated strategic planning in 2009 they created field of interest funds for each of these priorities. A donor stepped up and provided challenge grants. Today these three groups are working to meet the match requirements. They are building giveback cases and reaching out to potential donors. This is an education and engagement process and not an end in of itself. Once capitalized these funds and their advisory boards will create a neutral focal point for advancing each strategic agenda. The process has started transitioning broadly held consensus and vision into action and impact. Donors who give today to help met the challenge grants hold the potential to become underwriters and legacy givers tomorrow.



Center for Rural Entrepreneurship

energizing entrepreneurial communities

The Center for Rural Entrepreneurship is the focal point for energizing entrepreneurial communities where entrepreneurs can flourish. Created in 2001 with founding support from the Kauffman Foundation and the Rural Policy Research Institute (RUPRI), the Center is located jointly in Nebraska, North Carolina, and Missouri. The Center's work to date has been to develop the knowledge base of effective practices and to share that knowledge through training and strategic engagement across rural America. Working with economic development practitioners and researchers, the Center conducts practice-driven research and evaluation that serves as the basis for developing insights into model practices and other learning. The Center is committed to connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy. To learn more about the Center, visit www.energizingentrepreneurs.org.



*The Rural Policy Research Institute (RUPRI) functions as a national scientific research center, identifying and mobilizing teams of researchers and practitioners across the nation and internationally to investigate complex and emerging issues in rural and regional development. Since its founding in 1990, RUPRI's mission has been to provide independent analysis and information on the challenges, needs, and opportunities facing rural places and people. Its activities include research, policy analysis, outreach, and the development of decision support tools. These are conducted through a small core team in Missouri and Washington DC, and through three centers, **including the Center for Rural Entrepreneurship**, and a number of joint initiatives and panels located across the United States. RUPRI was created as a joint program of Iowa State University, the University of Missouri, and the University of Nebraska, and is now housed at the Harry S. Truman School of Public Affairs at the University of Missouri. To learn more about RUPRI, visit www.rupri.org.*

About The Center's Transfer of Work

As we have worked with communities and regions across North America the challenge of finding the financial resources necessary to support community betterment and development constantly arise. Don Macke with the Center was involved in creating the Nebraska Community Foundation as a solution to this challenge. For over a decade the Center is the leader in producing transfer of wealth analysis in the United States. The Center has also become a leader in the field of "community development philanthropy" or the intentional marriage of community foundations and community/economic development. Since 2001 the Center has completed 38 TOW projects. For more information about this work, contact Don Macke at don@e2mail.org.