



# **SOUTH DAKOTA TRANSFER OF WEALTH UPDATE TECHNICAL REPORT**

for the  
**South Dakota Community Foundation**



By the  
**Center for Rural Entrepreneurship  
Rural Policy Research Institute**

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*We encourage the readers of this report to review the following notes prior to engaging in the body of the report.*

**Electronic Library.** Extensive research and analysis has been gathered and prepared in support of South Dakota TOW Study. There is considerable information on each county and the wealth focus areas. This information has been electronically gathered and organized into a Project Electronic Library that can be accessed at the following web link:

[http://energizingentrepreneurs.net/site/index.php?option=com\\_content&view=article&id=113&Itemid=3](http://energizingentrepreneurs.net/site/index.php?option=com_content&view=article&id=113&Itemid=3)

**Methodology.** We have a detailed methodology paper that explains how RUPRI prepares transfer of wealth scenarios. We have not included this methodology paper in this report to save space and paper. But this paper is available through the Electronic Library. We welcome your review and invite questions. Our methodology paper can be accessed at:

<http://www.energizingentrepreneurs.net/site/images/research/towrochester/AC%20Methodology.pdf>

**Scenarios.** *There are two kinds of projections. The first type is predictions where a confidence of accuracy is provided. Prediction forecasts are typically short-term. The second type is scenarios. Scenarios are forecasts based on carefully researched assumptions and provide a visualization of a likely future. Scenarios are used to model longer time frames. Our CNW and TOW estimates are scenarios. We have worked hard to build conservative and reasonable assumptions. But it is important with a 50 year projection period, material changes in major assumptions can alter the end results of the TOW analysis.*

**Real Dollars.** All the calculations in this Study are made in real or inflation-adjusted dollars benchmarked to the real value of the dollar in 2010. Using real dollars reduces the distortion of inflation so a dollar of TOW in 2010 has the same purchasing power as a dollar in 2060.

**Acknowledgements.** *We would like to recognize the following persons and organizations for their help in making this Study possible.*

- Mike McCurry – SD State Demographer
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- Jim Soyer – South Dakota Governor’s Office – Special Assistant to the Governor
- Sid Goss – South Dakota School of Mines and Technology - Professor

## Why this Research?

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*Communities across America are caught in a squeeze play. On the one hand they are facing important challenges and opportunities to invest in their communities including community economic development. On the other hand, communities are experiencing reduced grant assistance ranging from federal and state governments to foundation sources to reduced capacity to provide needed community betterment funding from local businesses and governments.*

*Communities are committed to their future so within this squeeze play they are searching for new sources of funding that is more robust, dependable and that can be locally controlled. This search is energizing community development philanthropy. TOW analysis helps communities better understand their unique potential and where wealth and donors might be rooted.*

*Donors get to decide where they transfer their life's work. Many if not most donors love their hometowns and with the right opportunity may be moved to giveback or giveback more. The starting point for growing community endowments that can support community betterment begins with understanding the genuine opportunity. Then comes the hard and rewarding work of putting the pieces together and energizing community philanthropy.*

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A fair question is to ask: Why invest in TOW research? The following provides an answer based on how communities, regions and states all across America are using their TOW research to advance community philanthropy:

**Opportunity Awareness.** The primary way this analysis is being used is to raise leader and community awareness of the TOW opportunity. Understanding the magnitude and potential for legacy giveback creates motivation to move to action. Focusing on the 5% giveback goal creates a real goal that board members and community leaders can understand and focus energy towards giveback strategies.

**Wealth in Poor Places.** For too many communities they are now seeing themselves as poorer and may perceive that there are fewer opportunities for giveback. Understanding the TOW opportunity generally demonstrates that even in the poorest communities there is opportunity for philanthropy and legacy giveback. This can move attitudes from the glass is half empty to the glass is half full.

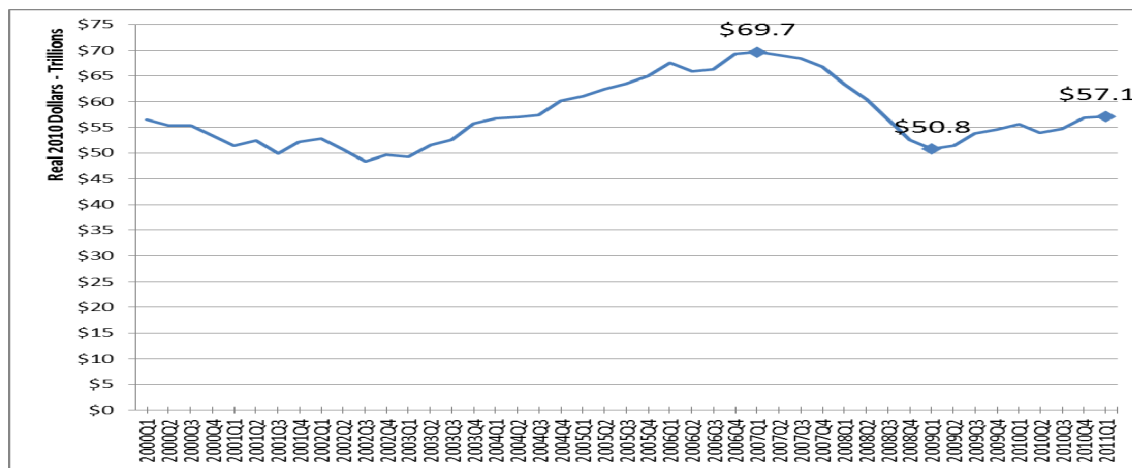
**Threat – Call to Action.** Whether there is a rural community, where depopulation is undermining community vitality, or a larger city where retirees with wealth are migrating to warmer climates, this research can be used to create a sense of threat and a call to action. Often times financial advisors can be asked to share stories that verify and illustrate the need to act on this opportunity now.

**Donor Targeting.** Finally and more recently, this research is now being used to identify specific legacy giveback pockets and refined donor targeting and development. Often times this research is being used to reach new donor communities and create associated field of interest funds that will motivate new donors to gift to the community foundation.

## Wealth in America

America is experiencing its most challenging economic downturn since the Great Depression. Challenges with government debt are rocking our national confidence. The Great Recession hit many American households hard and overall household related current net-worth declined from nearly \$70 trillion prior to the crash to just over \$51 trillion at the depth of the recession. Recovery has been slow, but steady and household wealth has grown by \$6.3 trillion or 12.4%.

**Recent Trends in U.S. Household Current Net-Worth**



*Source: Board of Governors of the Federal Reserve System & Center for Rural Entrepreneurship, 2011*

Bottom line, America remains a Nation with tremendous personal wealth. The potential for charitable giveback remains strong and is improving with each quarter. In 1999 Boston College in their landmark report [Millionaires in the Millennium](#) captivated the Nation with their estimates of \$41 to \$136 trillion in household wealth transfer (1998-2052). A decade has passed since this work was released and a lot has changed. Earlier this year the RUPRI Center for Rural Entrepreneurship created a new set of transfer of wealth opportunity scenarios based on the most recent demographic forecasts by the U.S. Census Bureau. These forecasts are rooted in likely population growth based on a range of assumptions about international migration.

Our new scenarios for transfer of wealth opportunity for the United States for the period of 2010 through 2060 range from a high of \$91 trillion to a low of \$43 trillion. Our most likely scenario estimates the TOW opportunity at \$75 trillion. Assuming we set a giveback goal of just 5%, over the next five decades nearly \$3.8 trillion in new community endowments could be built. These endowments could generate, once fully capitalized, nearly \$200 billion annually in new grant making! In this new age of challenged government spending, this investment could prove critically important to the future of America's communities.

***RUPRI Center for Rural Entrepreneurship***

## Executive Summary

In 2005 RUPRI prepared TOW analysis for the South Dakota Community Foundation and estimated the following TOW opportunity:

*2005 Current Net-Worth = \$28.8 billion  
10-Year TOW Opportunity = \$5.6 billion  
50-Year TOW Opportunity = \$38.0 billion  
5% Giveback Goal of the 10-Year TOW Opportunity = \$280 million  
5% Payout Rate on 5% Giveback Goal = \$14 million*

In 2012 RUPRI has updated South Dakota's TOW opportunity and the following summarizes our state findings:

*2010 Current Net-Worth = \$52.9 billion  
10-Year TOW Opportunity = \$10.8 billion  
50-Year TOW Opportunity = \$101 billion  
5% Giveback Goal of the 10-Year TOW Opportunity = \$541 million  
5% Payout Rate on 5% Giveback Goal = \$27 million*

The new scenarios illustrate a significantly greater TOW opportunity when compared to our 2005 analysis. The reasons for these differences are addressed in the section of the report beginning on page 24. In summary there are three primary reasons why the 2012 analysis indicates greater TOW opportunity when compared to the 2005 analysis:

***Better Methodology.*** *Since the first SD study was completed we have continued to advance our TOW research capacity. Our current methodology is much stronger in capturing a more reliable estimate of CNW and TOW opportunity. Similar increases have been found in updated TOW studies for Indiana, Nebraska and Montana.*

***Agriculture.*** *South Dakota is an agricultural state. Agricultural commodities are being fundamentally revalued in the world economy and this is resulting in rising agricultural real estate values now and through the scenario period. Even very conservative growth rates in the real value of agricultural real estate significantly impacts CNW and TOW opportunities.*

***Recession.*** *South Dakota is among a handful of states that were not as impacted by the Great Recession. South Dakota's economy is relatively strong and household wealth holding has not decreased to the same extent in non-ag and real estate bubble states.*

Household wealth holding varies widely across South Dakota. This report provides various perspectives from which to better understand the TOW opportunity present in South Dakota's 66 counties and various community types. Some areas of South Dakota have greater TOW potential, but even the poorest communities have TOW opportunity.

## Wealth in South Dakota as Seen by the World

ESRI of Chicago is one of America's largest supplier of household market research. An outside group exploring investing in South Dakota would likely employ this research. At RUPRI we use ESRI research as an important reference point in estimating household wealth and the likely TOW opportunity. **We believe the ESRI data to be remarkably accurate, however, we believe this research underestimates wealth associated with agricultural real estate.** This consideration is very important in South Dakota, and particularly rural South Dakota, where wealth associated with farms and ranches is extremely significant. We advise the reader to keep this important consideration in mind as they review this window into wealth holding in South Dakota. We have not adjusted ESRI's estimates in any way, but in our CNW and TOW analysis we do make adjustments for agricultural real estate and other assets like closely-held family businesses. In 2010 (the latest ESRI data year), ESRI estimates median household wealth at nearly \$83,000 and mean or average wealth at nearly \$298,000. The 3.6 times difference between the median and mean values suggests there is considerable household diversity in South Dakota based on wealth holding. Nearly 50% (47.8%) of all South Dakota households according to ESRI have "low" wealth or CNW less than \$75,000. The next largest group has mid-range (\$75,000 to \$249,999) estates and represent over a quarter (27.5%) of all households. What might be called "higher" wealth households (\$250,000 to \$1 million) include 66,144 households in South Dakota (20.4% of all households. According the ESRI there are nearly 14,000 \$1 million plus households (4.3%). Again we feel these estimates likely underestimate farm and ranch related wealth and possibly the higher incidence of closely-held family businesses like community banks, phone companies and the like.

*ESRI of Chicago is one of America's larger suppliers of household market research. An outside group exploring investing South Dakota would likely employ this resource.*

On the next page there are three figures containing summary information based on ESRI research for 2010 for South Dakota. According to ESRI, South Dakota, when compared to the U.S., has a slightly higher share of households with lower wealth (48 vs. 46%) and a moderately lower share of households with higher wealth (11 vs. 17%). Lincoln County (part of the Sioux Falls metro) has values that are significantly better than the U.S.. Pennington County (Rapid City metro) has values that are very comparable to the state values. Miner County representing farm country has over 50% of its households defined as lower wealth and about 6% defined as higher wealth. Harding County in extreme northwest South Dakota representing ranching country has over 60% of its households falling into the lower wealth category and 6.5% in the higher wealth

category. Lawrence County (Spearfish) in the Black Hills has values slightly weaker when compared to state averages. Shannon County home to the Pine Ridge Reservation illustrates the weaker wealth holding in Reservation Communities with nearly 80% of its households classified as lower wealth and just over 2% as higher wealth. [Complete summaries of ESRI research are available in the Electronic Library for the state and each county.](#)

**Figure 1 – Profile of South Dakota Wealth, 2010**

Wealth Classification	Households	Share	Wealth Range
Low Wealth	155,120	47.8%	\$0 to \$75,000
Mid Wealth	89,215	27.5%	\$75K to \$250K
High Wealth	66,144	20.4%	\$250K to \$1Mil.
\$1 Million+	13,845	4.3%	\$1 Million+

Source: ESRI, Chicago – 2010 Data – 2012

**Figure 2 – Profile of South Dakota Wealth by Age Cohort**

Age Cohort	Mean	Median	Under \$50K	Over \$500K
<25	\$22,116	\$9,382	92%	0.2%
25-34	\$78,702	\$20,316	63%	1.5%
35-44	\$168,778	\$62,117	46%	4.9%
45-54	\$343,310	\$128,784	31%	12.1%
55-64	\$569,682	\$175,929	27%	20.6%
65-74	\$569,546	\$155,479	23%	19.9%
75+	\$358,523	\$122,337	31%	14.1%

Source: ESRI, Chicago – 2010 Data – 2012

**Figure 3 – Wealth Comparisons, 2010**

Place	Share of All Households	
	Under \$75,000 CNW	Over %500,000 CNW
U.S.	46%	17%
South Dakota	48%	11%
Nebraska	46%	13%
North Dakota*	49%	11%
Lincoln – Sioux Falls	28%	20%
Pennington – Rapid City	46%	14%
Miner – Farm	51%	6%
Harding - Ranch	62%	6.5%
Shannon –Pine Ridge Reservation	79%	2.4%
Lawrence – Black Hills	49%	8%

Source: ESRI, Chicago – 2010 Data – 2012

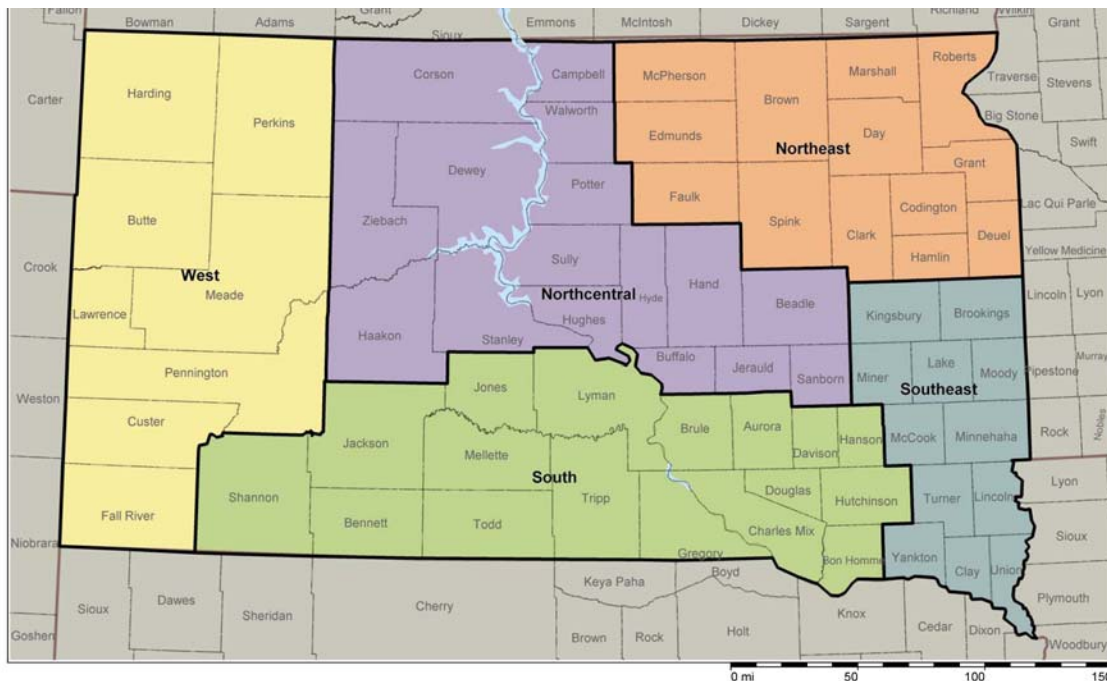
\*Probably does not reflect the new oil royalty related wealth.



## Findings by Region

South Dakota is a large state geographically with considerable geographic diversity from east to west and including the unique Black Hills Region, the Missouri River and its lakes and the more fertile agricultural areas in the east. Because of this diversity we have generated CNW and TOW analysis for South Dakota's economic regions. The following map provides a visual representation of the State's defined economic regions and the counties contained within each region. The following table provides both absolute and per household CNW and TOW findings by economic region.

**Figure 4 – South Dakota's Economic Regions**



**Figure 5 – CNW & TOW Findings by Economic Region**

Place	2010 CNW		10-Year TOW		50-Year TOW	
	Estimate	PHH	Estimate	PHH	Estimate	PHH
South Dakota	\$52.88B	\$163,100	\$10.82B	\$30,200	\$100.98B	\$207,400
Northcentral	\$4.15B	\$142,700	\$1.06B	\$34,600	\$9.32B	\$265,800
Northeast	\$7.20B	\$146,700	\$1.66B	\$32,600	\$13.81B	\$237,800
South	\$4.25B	\$113,200	\$1.08B	\$27,300	\$8.28B	\$184,400
Southeast	\$25.75B	\$189,200	\$4.42B	\$28,400	\$44.02B	\$185,800
West	\$11.53B	\$159,100	\$2.59B	\$32,000	\$25.56B	\$228,300

## Findings by Community Type

Comparing with other similar places can be helpful in better understanding the fuller meaning of your community's unique CNW profile and TOW opportunity. So we have organized our findings according to the following community types where there are similar underlying economies and demographics.

Metro or Non-Metro Communities

Farm or Ranch Counties

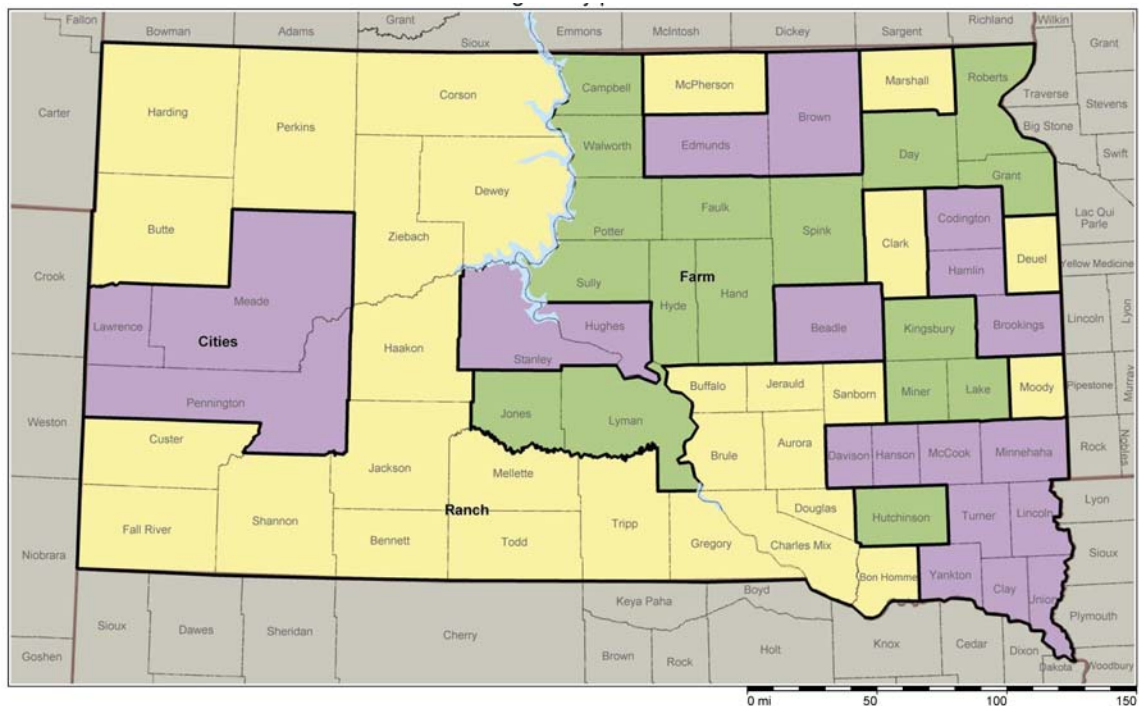
Counties with Larger Cities

Counties where Native American (N.A.) population is over 50%

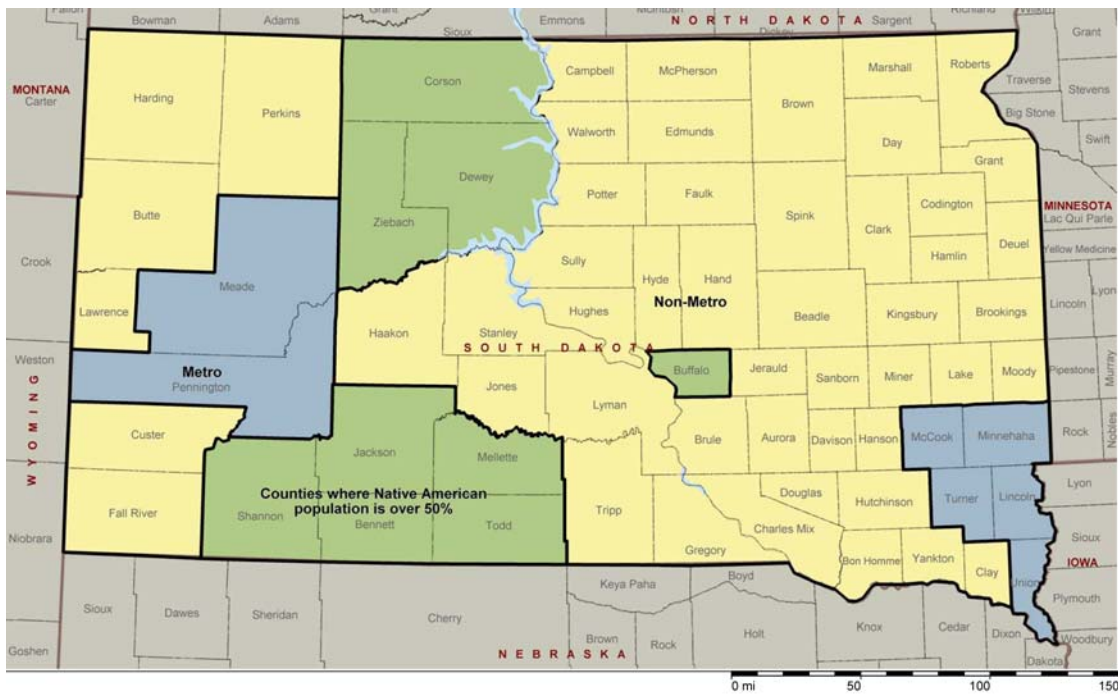
Counties by Economic Region (previous section)

The first map provides those counties which are home to a larger city, are farm dependent or ranch in character. The second map identifies metro and non-metro counties and those counties where Native American (N.A.) population is over 50%.

**Figure 6 – Counties by Type – Cities, Farm & Ranch Counties**



**Figure 7 – Metro, Non-Metro & Counties where Native American population is over 50%**



The following table provides CNW and TOW opportunity findings sorted by the following categories:

*Metro & Non-Metro Counties*  
*City, Farm and Ranch Counties*  
*Counties where Native American (N.A.) population is over 50% & Rest of the State*

**Figure 8 – Findings by County Type**

Place	2010 CNW		10-Year TOW		50-Year TOW	
	Estimate	PHH	Estimate	PHH	Estimate	PHH
South Dakota	\$52.88B	\$163,100	\$10.82B	\$30,200	\$100.98B	\$207,400
Metro	\$29.42B	\$196,000	\$5.25B	\$30,500	\$54.08B	\$203,000
Non-Metro	\$23.46B	\$134,600	\$5.57B	\$29,900	\$46.90B	\$212,700
City	\$42.29B	\$176,400	\$7.94B	\$29,400	\$78.57B	\$200,700
Farm	\$4.83B	\$147,500	\$1.29B	\$38,500	\$9.89B	\$290,400
Ranch	\$5.76B	\$111,200	\$1.58B	\$29,100	\$12.51B	\$203,900
Counties where N.A. population is over 50%	\$838.13M	\$63,000	\$312.72M	\$21,000	\$2.76B	\$134,900
Rest of the State	\$52.04B	\$167,300	\$10.50B	\$30,600	\$98.22B	\$210,600

# Wealth Holding Focus Areas

Each state or community creates household wealth based on its underlying economy and culture. The following table summarizes the top five of the more important wealth holding focus areas for South Dakota.

<b>Agricultural Real Estate</b>	The largest source of household wealth in South Dakota is rooted in its farms and ranches or its agricultural real estate. Based on the <u>2007 Census of Agriculture</u> total agriculture related real estate in South Dakota is valued at just over \$39 billion. Adjusting for debt and a 5% capture target, \$1.75 billion of this wealth will be in play for community giveback.
<b>Closely-Held Family Businesses (entrepreneurs)</b>	Rural states like South Dakota have a strong tradition of small business related entrepreneurship. From banks, to medical practices to main street “mom and pop” hardware stores – South Dakota has extensive closely-held family businesses with significant net value. During times of business ownership and control transition, some of this value will be in play for potential community giveback.
<b>Urban Professionals</b>	South Dakota has a substantial class of professions ranging from medical doctors to attorneys. These professionals tend to be concentrated in urban centers including cities like Sioux Falls and Rapid City to smaller trade center communities like Aberdeen and Hot Springs. Many of these professionals own their business, generate considerable personal income over their lives and tend to create diversified wealth portfolios. They often love their community and are active donor candidates.
<b>Thrifty Retirees</b> <i>Hard working, saving &amp; investing families.</i>	South Dakota, like other Great Plains states, has a strong tradition of working hard, spending less than you make, saving and investing. This conservative culture can enable even households with modest incomes to generate meaningful estates over their lives. While this group may not have the highest net-worth, they have both capacity and motivation to leave a legacy to their hometowns.
<b>New Prospects</b>	There are two, yet to be determined, new prospects for this list including new residents and potential energy development. South Dakota is a haven for destination pockets (e.g., Black Hills, its lakes and hunting country). These destinations have both a tradition and future potential for attracting new residents and potential higher capacity donors. America is having an energy boom illustrated by the developments in Western North Dakota. New discovery and development technologies could expand energy products to new and old areas. North Dakota development is already impacting NW SD and this is an area that should be explored through other research.

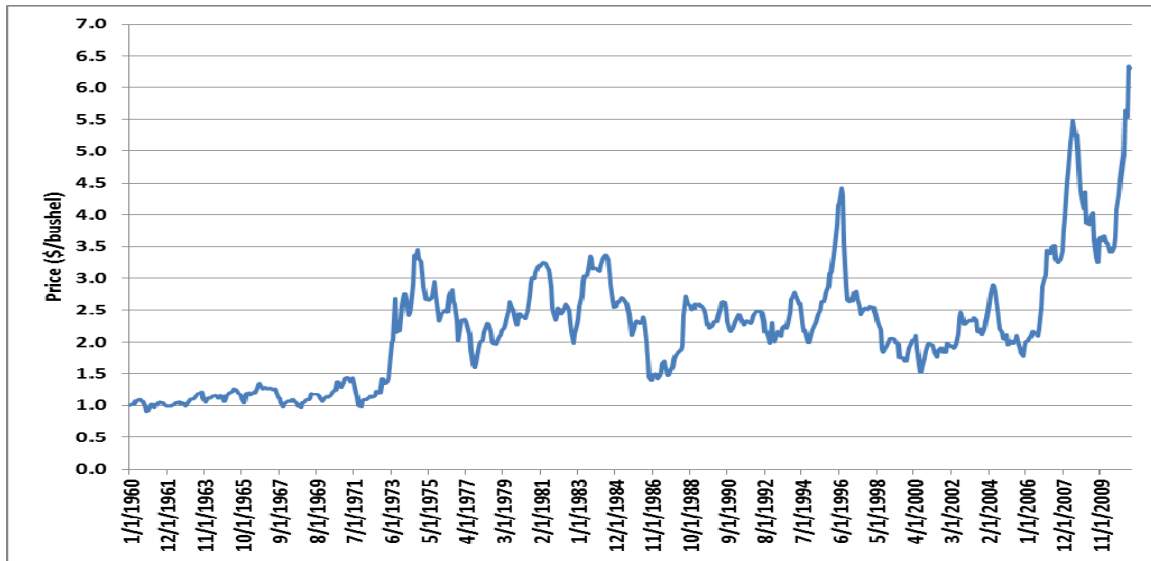
In the following section we will explore each of these five focus areas and illustrate what they mean for realizing South Dakota’s TOW opportunity.

## Agricultural Real Estate

*After demographics and economic growth, the most important unique consideration for South Dakota's TOW opportunity is agricultural real estate (ARE). Like other natural resources increasingly in demand in a growing world economy, the value of agricultural products is fundamentally being revalued. While we fully expect there to be periods of price boom and bust, we believe we are in a sustained period where the value of agricultural commodities produced by South Dakota's farms and ranches will increase in value at a much faster rate when compared to general growth within the economy. Revaluation of agricultural commodities is and will drive the value of its primary input, agricultural real estate. The following section addresses this topic and summarizes our key assumptions on how agricultural real estate will impact South Dakota's TOW opportunity over the next five decades. The following summarizes our key considerations and assumptions related to the treatment of ARE assets within our TOW scenarios.*

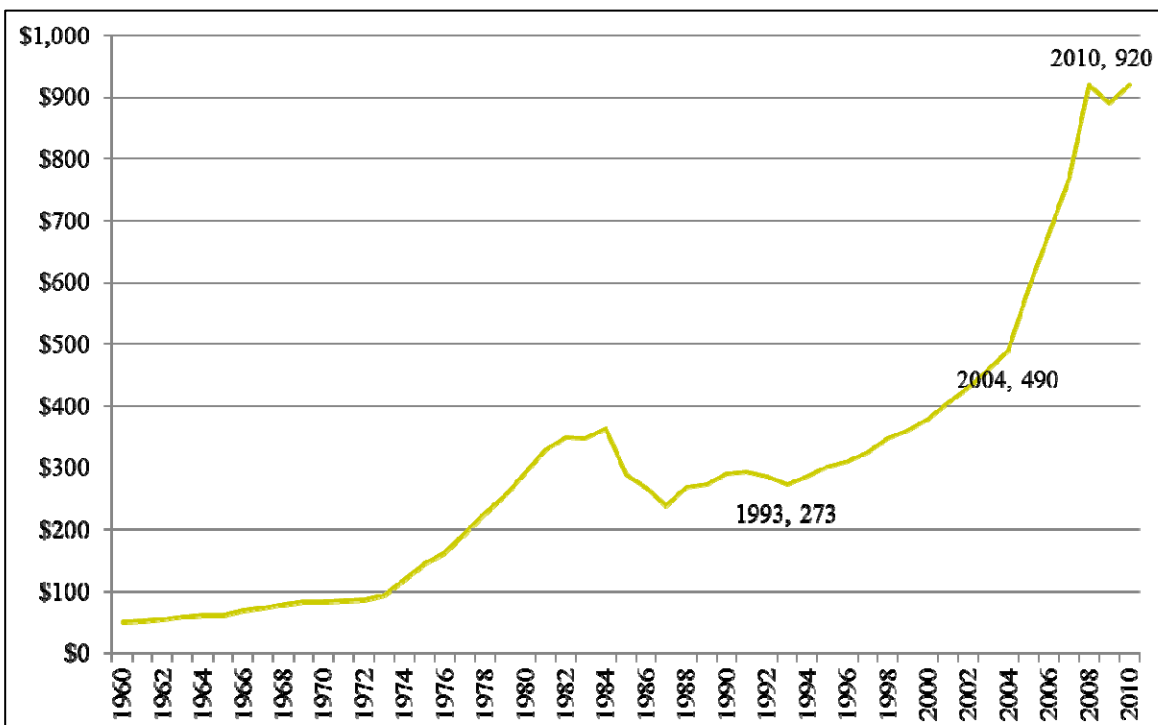
<b>Significant Asset</b>	Compared to our 2005 research, the value of ARE has increased dramatically over the past decade: Without adjusting for inflation (which has been relatively lower over the past decade), the value of ARE has grown from \$33 billion in 2000 to \$67 billion in 2010 (103% increase).
<b>Impact on Smaller Counties</b>	If all the ARE wealth was in play in South Dakota for community giveback it would theoretically represent a sizeable portion of total household wealth. Of course this is not the case. But for more rural and agriculturally dependent counties, ARE represents a primary asset class and giveback opportunity.
<b>Commodity Boom</b>	Production agriculture and the commodities it produces have historical cycles of boom and bust. Right now agricultural commodities (as well as other natural resources) are experiencing a global revaluation and boom in value. The potential for bubbles and downward adjustments are always possible and real. However, as the world's population continues to grow dramatically and emerging counties like China, Brazil and India experience explosive growth, the demand (relative to supply) of all commodities from oil to corn to rare earth minerals are likely to appreciate in value far more rapidly than other assets. Over time we anticipate rising real values in agricultural commodities.
<b>Real Estate Value Appreciation</b>	Real increases in agricultural commodities relative to costs of production will continue to increase the value of ARE. The following chart illustrates our assumption of the real change in ARE values over the scenario period for this TOW update of South Dakota. No one knows for sure what the actual change will be and when we will see spikes and downward adjustments.
<b>Debt to Equity</b>	One aspect of the recent boom in production agriculture in South Dakota and elsewhere is it is not being fueled by dramatic increases in borrowing. Debt to equity ratios are at record lows. This trend has two implications. First, low debt equity ratios mitigate the potential downside effects of a potential bubble bursting. Second, even with a downward adjustment, there will remain significant real wealth in ARE over time.
<b>Who Owns the Land</b>	There is a strong connection between giveback potential and residence. Hometown is important. Bottom line, a local farm family that has deep roots in a community is more likely to giveback to the community than an owner who has been removed from the community for several generations.

**Figure 9 – Time Series of Monthly Average Price for Corn**



Source: [Farmdoc](#), University of Illinois

**Figure 10 – Per Acre Value of Land & Buildings**



Source: South Dakota Agricultural Statistics Service, USDA's National Agricultural Statistics Service.



**Giveback Potential.** One way to frame the “giveback potential” from any donor or asset class like farmers or ARE is as follows:

*Gross Wealth (total assets not adjusted for debt)  
Net Wealth (gross wealth minus debt & obligations)  
Available Wealth for Potential Giveback (heirs & charity)*

A family may have a \$1 million farm free and clear. Assume they have no heirs and they plan to sell the farm and will have \$1 million in cash. They are unlikely to give all \$1 million away. These are practical and conservative people who will make sure they provide for their old age. But with this level of resource, love of their hometown and with some good planning they might commit 5, 10 or even 15%. With closely held assets like farms and family businesses we find on average between 5 and 15% of the net wealth can be in play for giveback.

## Closely-Held Family Businesses

Farms and ranches generally can be viewed as closely-held family businesses. But South Dakota also has a rich history of non-farm family businesses. Regardless of the exact legal structure, the functional control of these businesses and the wealth they represent is with the family. Unlike agriculture we do not have statistical information on non-farm businesses that can allow us to estimate their wealth. But using a resource from the Edward Lowe Foundation ([www.youreconomy.org](http://www.youreconomy.org)) we can shed some insights on this donor focus. The following are summary statistics from this source in 2008:

*78,138 Business Establishments in South Dakota  
Over 89% are owned by South Dakotans  
45% or 31,118 are Self-Employed Entrepreneurs  
Nearly 48% or 33,132 are Small Businesses with 2 to 9 Employees  
7.5% or 5,218 are larger with 10 to 99 Employees  
Another 0.3% or 216 have 100 to 499 Employees  
Only 18 are Large Businesses with more than 500 Employees*

These non-farm family businesses include a wide range of activities including community banks, main street grocery and hardware stores, businesses engaged in meeting the needs of farms and ranches, small telecommunication companies and home grown South Dakotan manufacturers. Regardless of their size or business sector, they are largely owned in South Dakota and so there are strong roots to the communities where they were created and where they have facilities. Some, maybe many of these family businesses have little rooted wealth, but many, if not most, do. Their capacity for giveback range is based on size and success. But there is massive potential for giveback from these closely-held family businesses. Conservatively, there is presently \$5 to \$10 billion of rooted wealth embedded in South Dakota’s closely held non-farm family businesses. This number could be much higher but provides a floor estimate.

## Urban Professionals

We encourage the reader to review the inset on this page before proceeding with reading this section. It provides an important insight on the role of “professionals.” We recognize and embrace any individual with skills and talents, whether they be a farmer or a doctor as a professional. But in this case the reference is to those in our society

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*The January 15, 2012 edition of the New York Times ran a very interesting story of both the location and the occupation of America's highest paid professionals. We are not venturing into the national debate around the 1% or 99%, but we feel this research is illuminating and expands the research of the Federal Reserve in their Survey of Consumer Finances. While this is national research, we believe the primary insight has application in South Dakota. The following summarizes the concentration of occupations that comprise America's top income (annual pre-tax & excluding capital gains of \$380,000/year) earners:*

#1 – Physicians – 192,268

#2 – Administrators – 192,096

#3 – CEOs – 161,069

#4 – Lawyers – 145,564

#5 - Accountants – 61,033

*Others in the top 10 include financial advisors, marketing and public relations, real estate and insurance. Ironically, actors, directors, producers, writers, authors and sports figures account for only 26,300 of the top earners nationally.*

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that have extensive education in professions like medicine, technology, business and the like.

After successful entertainers, sports figures and corporate leaders, these very specialized professionals are among the most highly compensated individuals and often the businesses they own (often as LLCs) represent potential donors in every community, but particularly in more urban communities where they tend to concentrate.

Once again employing the Edward Lowe Foundation resource ([www.youreconomy.org](http://www.youreconomy.org)) we can estimate the number of “professionals” including those concentrated in key sectors like health care, finance, legal services, administration and technical services (e.g., engineering, architecture, etc.). There are an estimated (in state owned) 25,000 of these kinds of ventures in South Dakota. There are a larger number of individuals and households associated with them. Think about the typical medical specialty in Aberdeen where there may be multiple doctors and possible other family and friend investors that have equity in the business. Conservatively in 2010 there is over \$3 billion of wealth associated with this potential donor focus area.

There is considerable overlap between closely-held family businesses and many of these ventures as well. The two wealth estimates are not additive. Most are private and non-traded companies. As partners in these ventures leave

and sell their equity to existing or new partners, there is a giveback opportunity for the community.



## Thrifty Retirees

The average CNW of a household in the 65 to 74 year old age (likely age cohort for retirement) cohort in South Dakota (ESRI estimate for 2010) is nearly \$570,000. Remember this is an average meaning that there are retirees with much less wealth, but many with much more wealth as well. The median (mid-point or 50% below this point and 50% of households above this point) estimate is \$155,000. So there is significant household wealth associated with retirees or older age cohorts in South Dakota. 40% of all South Dakota households can fall into this larger “retiree” category (ages 54 to 75+).

Historically and typically as we age we increase our earnings and our wealth. We accumulate assets and our CNW increases through our working lives. These are averages and there are clearly households where this is not the case. In South Dakota peak wealth occurs in the 55 to 64 year old age cohort. It remains comparable in the 65 to 74 year old age cohort and then declines with increasing age as earnings drop off and assets are given away. There are cross connections with other categories like farm and business ownership or being a doctor or attorney.

From a donor development stand-point, it is important to engage households early while they are still creating wealth positioning them as donors as they have greater and greater capacity to give. Given the uncertain economy and the challenges of living longer, addressing the discomfort of running of assets is more important today. The question of do I have enough wealth to keep me independent is a fair question and giveback vehicles that include good estate planning are essential. This reality places a premium on organizations like the South Dakota Community Foundation and others that can do high quality planned giving where these issues are addressed. Charitable entities without this kind of experience will be less able to connect with these donors and appropriate meet their needs, address their fears and enable community gifting. The following table summarizes the likely 2010 share of wealth by age cohort in South Dakota according to ESRI research:

*Older South Dakotans  
Represent 40% of all  
households, but control an  
estimated 66% of all  
wealth. 55 to 64 year olds  
control nearly as much  
wealth as all the younger  
age cohort groups.*

Under 25	25-34	35-44	45-54	55-64	65-74	75+
<1%	1%	9.3%	23.5%	32.3%	19.7%	14.1%

## New Prospects

Our research for this project suggests that there may be two additional new prospects for donor development and community giveback:

### *Energy/Mineral Royalties & Second Homes*

We have not made adjustments to our CNW and TOW scenarios to materially include these two new prospects. But we believe they are adequately important that communities where these opportunities exist should actively explore them as part of their community philanthropy strategy. Let's explore each a bit more to illustrate why we recommend consideration of these two prospective opportunities.

**Energy/Mineral Wealth.** After decades of decline and rising dependence on foreign energy and minerals, America's trend lines are shifting with increasing exploration, development and production in larger areas of rural America. Just to the north in Western North Dakota one of America's largest contemporary energy booms is underway. Throughout the United States the introduction of new production technology (called fracking) is renewing and expanding energy production. Rising world demand for all commodities including minerals is also resulting renewed exploration and development. It is not clear how this might impact regions in South Dakota. But it appears there is already some allied development occurring in northwestern South Dakota as a result of the energy development in Western North Dakota as underlying resources extend exploration and potential development footprints into Montana, South Dakota and Canada. Similar natural gas development in Pennsylvania is creating what is now commonly referred to as "mailbox millionaires." Local residents who owned land but had very modest estates now have significant new wealth. This pattern is now occurring across America where there are energy and mineral resources being developed.

**Second Homes.** South Dakota is generally not viewed as a destination state like Hawaii, Florida or even as Montana is viewed. However, as all South Dakotans know this is not really true. Across South Dakota there are pocket destinations where vacation, second and retirement homes are present. The two most common pockets include the Black Hills in southwestern South Dakota and areas adjacent to lakes. But South Dakota is also known for great hunting and there are rural ranch and farm properties acquired by both residents and outsiders for hunting purposes. Whether it is a Nebraska doctor creating a second home in the Black Hills or a family from Sioux Falls with a vacation home on a lake in northeastern South Dakota, the donor potential remains similar. These temporary or emerging permanent residents create affinity with their second or new homes. Often they have wealth and the capacity to give back. Cultivating these donors can greatly expand giveback potential particularly in more lightly populated rural areas. While this opportunity is probably not a game changer for most communities, it is an opportunity worth exploring and pursuing if conditions are present with these kinds of residents.

## South Dakota and Native Americans

South Dakota is home to many Native American communities. This reality impacts wealth holding and TOW opportunity in South Dakota. To show this reality we provide the “per household” (PHH) values for counties where Native American population is over 50% in the below table. When benchmarked to South Dakota and rest of the counties, CNW and TOW opportunities are significantly lower in these counties where Native American population makes up more than 50% of the total population. The following map shows these counties and their locations within South Dakota.

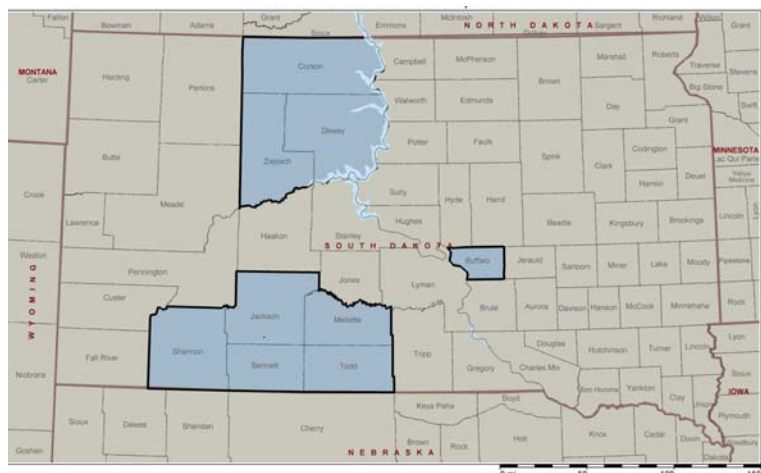
*Land Rich, Dirt Poor: Challenges to Asset Building in Native America* chapter in The Color of Wealth, The Story Behind the U.S. Racial Wealth Divide provides an objective view of the economic realities faced by Native Americans. In our TOW scenarios we recognize important development progress is being realized in South Dakota. However, progress has come slowly and we assume continued progress will be slower when compared to development and growth in the rest of South Dakota. With that said, even in these relatively poorer communities, there is TOW opportunity and the potential for community development philanthropy.

**Figure 11 – Wealth Holding for Selected Counties**

Place	2010 CNW		10-Year TOW		50-Year TOW	
	Estimate	PHH	Estimate	PHH	Estimate	PHH
South Dakota	\$52.88B	\$163,100	\$10.82B	\$30,200	\$100.98B	\$207,400
Bennett	\$94.30M	\$84,400	\$27.29M	\$22,700	\$205.26M	\$139,700
Buffalo	\$24.38M	\$43,000	\$8.50M	\$14,200	\$64.54M	\$90,800
Corson	\$99.09M	\$77,700	\$30.57M	\$22,100	\$287.45M	\$169,900
Dewey	\$122.53M	\$64,200	\$44.61M	\$22,400	\$351.10M	\$155,900
Jackson	\$99.38M	\$108,600	\$30.89M	\$34,500	\$208.21M	\$230,200
Mellette	\$73.18M	\$104,800	\$26.98M	\$40,300	\$178.67M	\$297,600
Shannon	\$131.89M	\$41,900	\$76.48M	\$19,900	\$796.63M	\$121,300
Todd	\$137.10M	\$47,400	\$49.93M	\$14,800	\$458.94M	\$93,500
Ziebach	\$56.27M	\$72,000	\$17.47M	\$18,700	\$210.87M	\$154,200

**Figure 12 – Native American Population as a Percent of Total Population**

*Note: share of Native American population is above 50% in places represented by blue.*



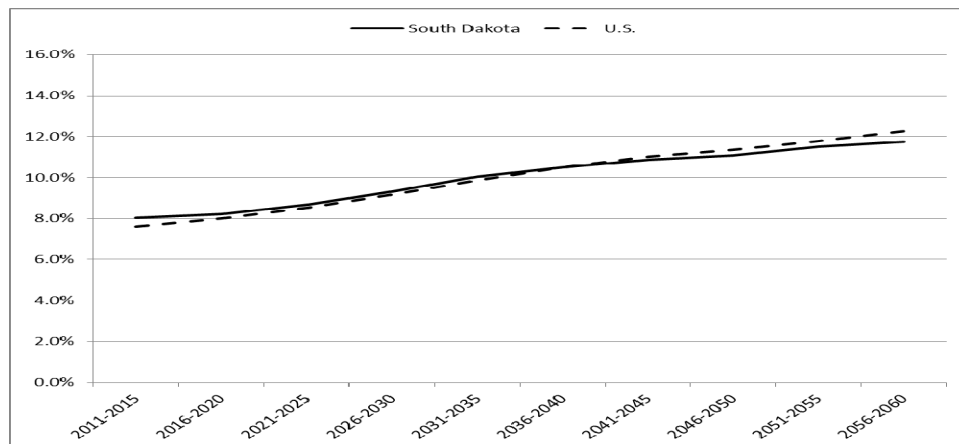
## TOW Timing

The following figures illustrate our scenarios of the TOW timing. Compared to the 2005 study we are using an enhanced methodology for generating these charts. The earlier charts were based on the share of TOW available for each five year period. The new TOW charts are based on the number of estates coming into giveback play each year. This change is important as it better illustrates the urgency for action in those counties experiencing net outmigration and depopulation. In these counties the number of “estate events” diminishes over time as the population base narrows and more and more heirs live outside of the rural county.

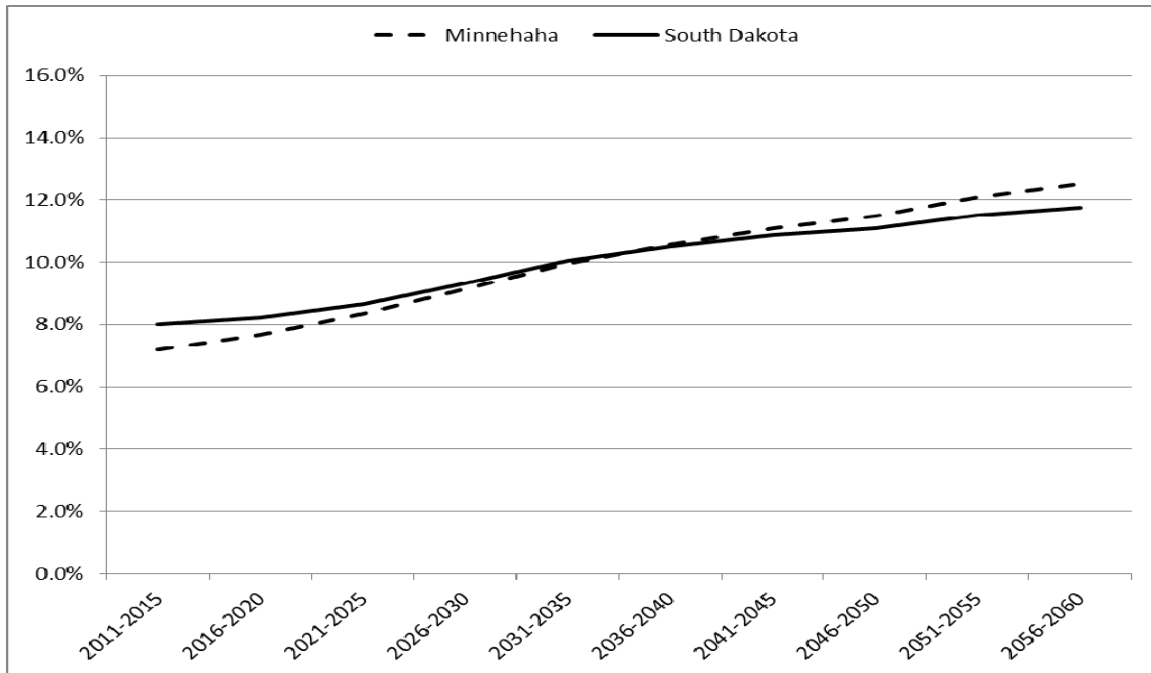
The first chart compared the updated U.S. and South Dakota TOW timing trend lines. These two trend lines align more with our updated analysis when compared to the 2005 analysis. Dramatic reductions of in-migrations, decreasing new household formation rates and dropping birth rates are all combining to reduce demographic growth (particularly among younger age cohorts) in our new scenarios. Bottom line, South Dakota and U.S. demographics are now much similar to post-Great Recession when compared to pre-Great Recession trends. The following charts illustrate specific counties and community types:

**Sioux Falls & Rapid City.** There are charts for Minnehaha and Pennington Counties to illustrate Sioux Falls and Rapid City or South Dakota’s two largest cities. We also included Lincoln County where there has been rapid urbanization. **Farm & Ranch.** We have selected Miner County to illustrate an east river farming community and Harding County to illustrate a west river ranching community. **Counties where N.A. population is over 50%.** Finally we have included Shannon and Buffalo Counties to illustrate counties where Native American population is over 50%. Charts for all counties are available in the Electronic Library.

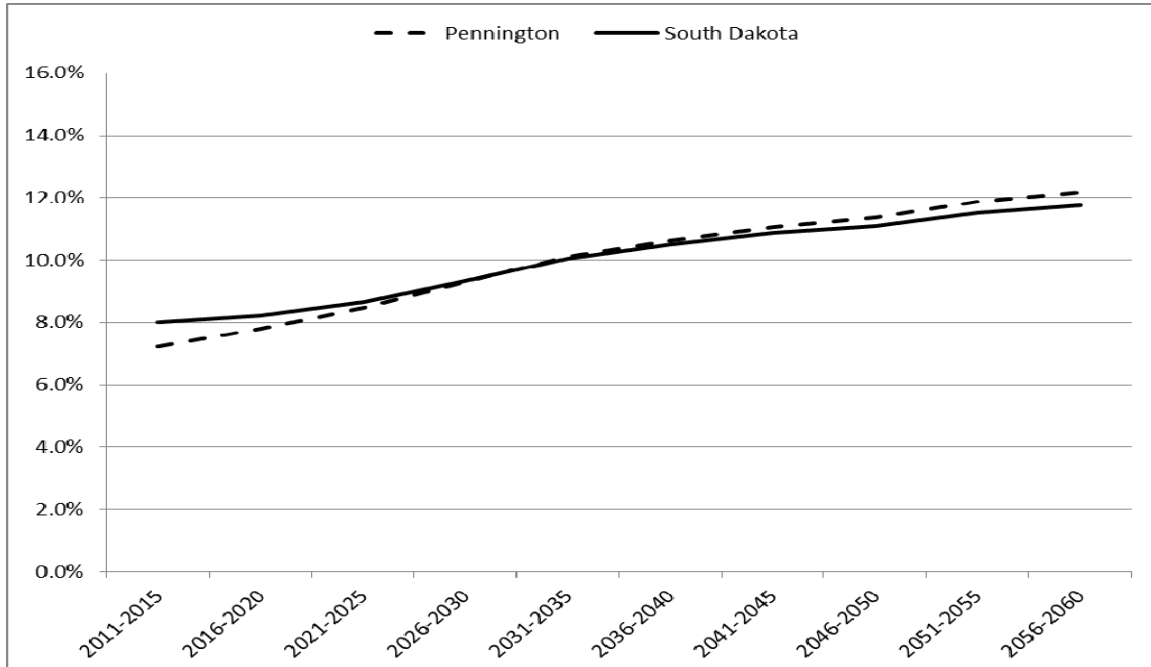
**Figure 13 – TOW Opportunity Timing Chart for South Dakota and U.S.**



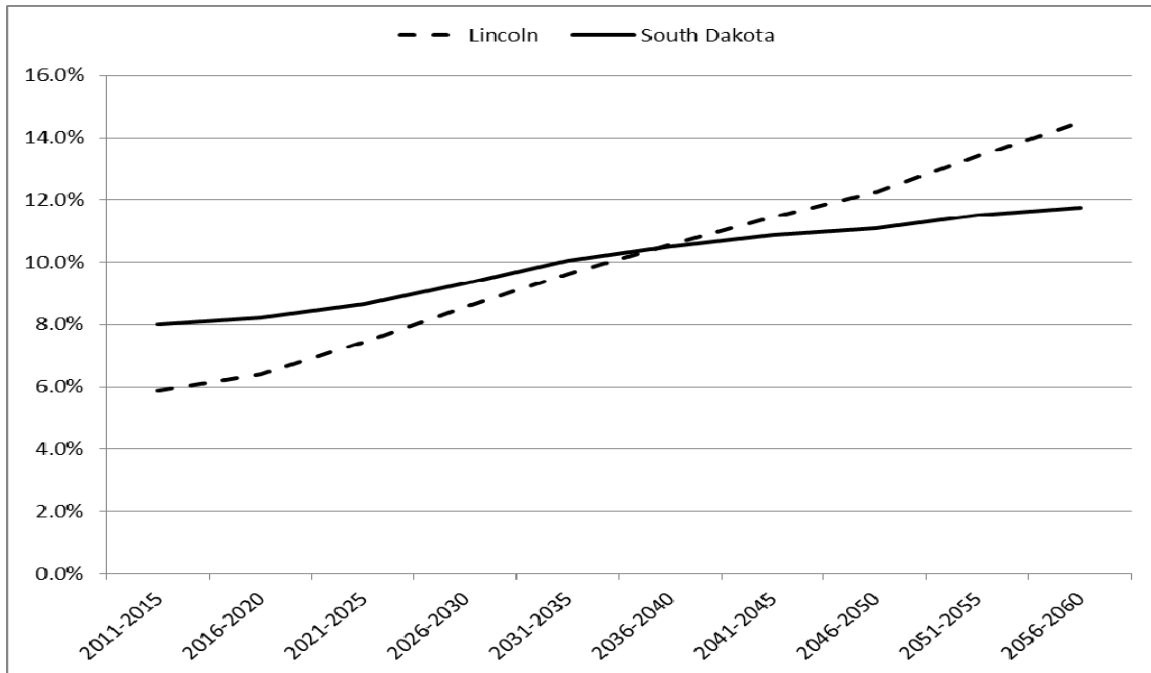
**Figure 14 – TOW Opportunity Timing Chart for Minnehaha and South Dakota**



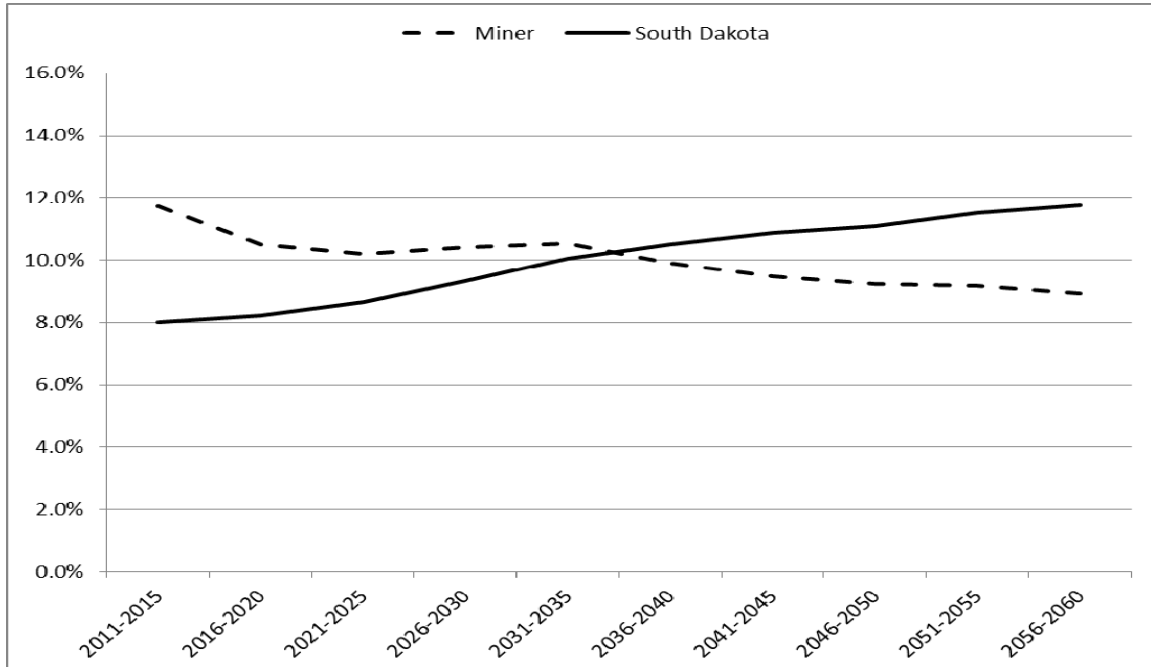
**Figure 15 – TOW Opportunity Timing Chart for Pennington and South Dakota**



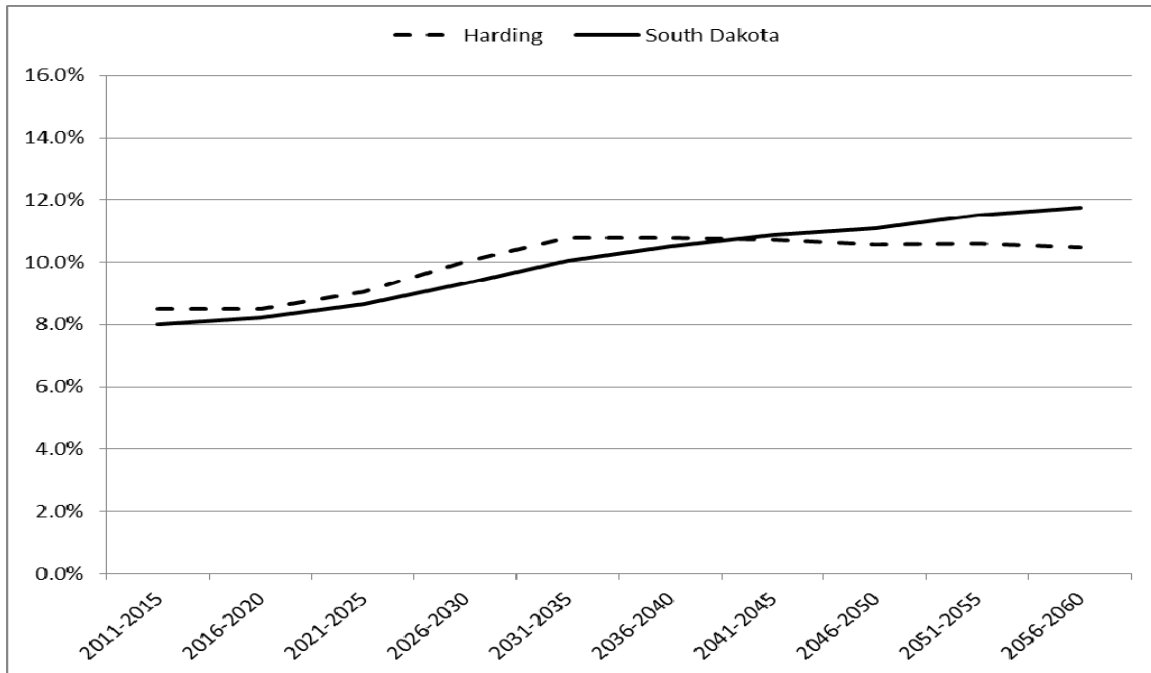
**Figure 16 – TOW Opportunity Timing Chart for Lincoln and South Dakota**



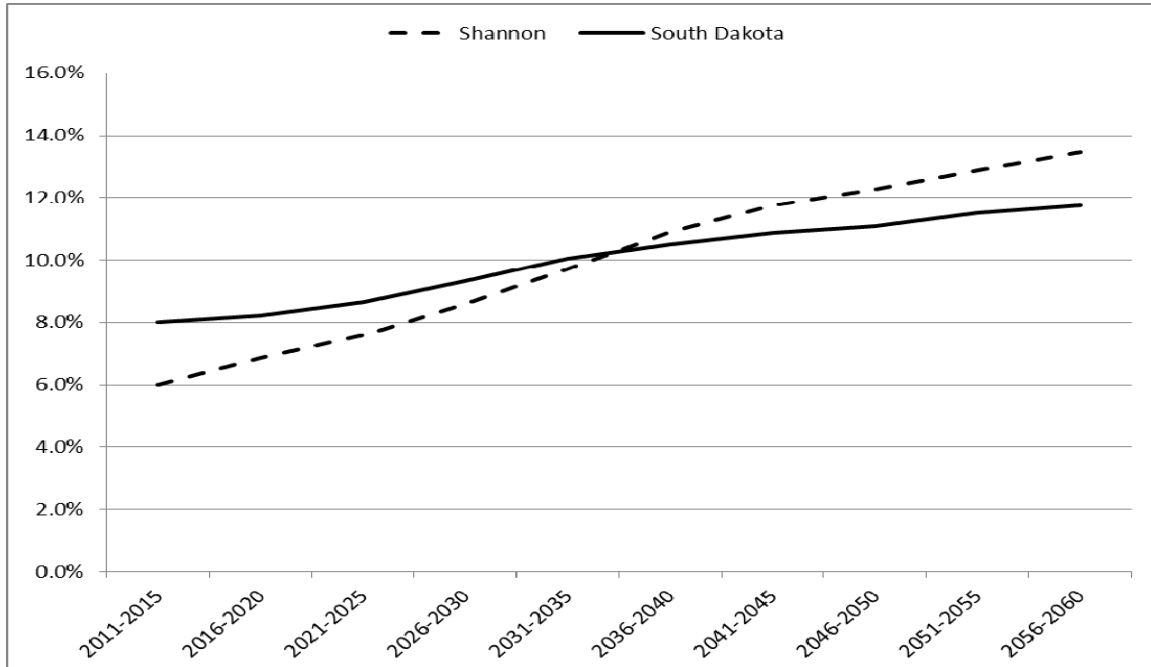
**Figure 17 – TOW Opportunity Timing Chart for Miner and South Dakota**



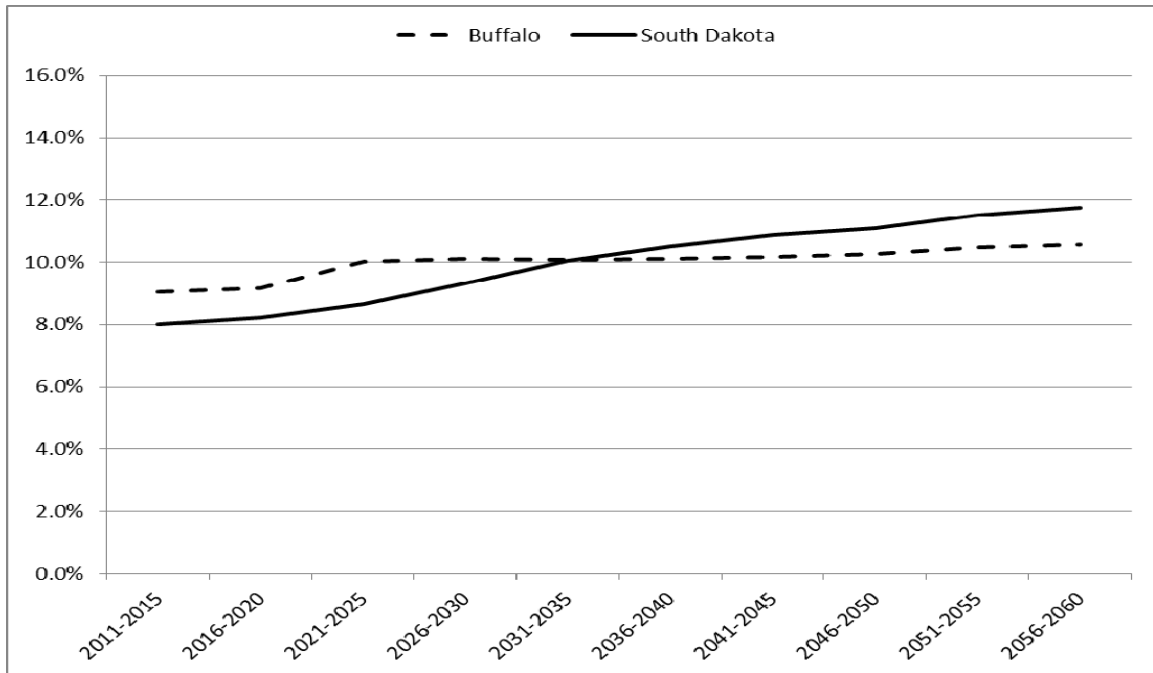
**Figure 18 – TOW Opportunity Timing Chart for Harding and South Dakota**



**Figure 19 – TOW Opportunity Timing Chart for Shannon and South Dakota**



**Figure 20 – TOW Opportunity Timing Chart for Buffalo and South Dakota**





## 2005 & 2012 Study Comparisons

In 2005 the Center for Rural Entrepreneurship completed TOW analysis for the South Dakota Community Foundation for South Dakota and its counties. This was one of the Center's earlier TOW studies. This study is available at the following Web Link [www.energizingentrepreneurs.org/site/images/research/development%20resources/Wealth%20in%20South%20Dakota.pdf](http://www.energizingentrepreneurs.org/site/images/research/development%20resources/Wealth%20in%20South%20Dakota.pdf). This earlier study was based on very conservative assumptions and a more limited understanding of wealth holding. Since this study we have completed studies in over 1,000 counties nationwide and which have greatly enhanced our research capabilities. Our current study methodology reflects the fundamental changes occurring following the Great Recession. The key findings in the 2005 Study (2000 inflation adjusted real dollars) are as follows:

*2005 CNW for South Dakota - \$28.8 billion  
 10-Year TOW Opportunity - \$5.6 billion  
 50-Year TOW Opportunity - \$38.0 billion  
 5% Capture Goal of the 10-Year TOW - \$280 million  
 5% Payout Capability on the 10-Year TOW - \$14 million*

The following table provides a comparison between the 2005 and 2012 study findings:

**Figure 21 – 2005 & 2012 TOW Findings Compared**

Place	Current Net Worth				10-Year Transfer of Wealth			
	2005 Study	2012 Study	Actual Change	% Change	2005 Study	2012 Study	Actual Change	% Change
South Dakota	\$28.9B	\$52.9B	\$24.0B	83.3%	\$5.6B	\$10.8B	\$5.2B	93%
Brown	\$1.5B	\$2.3B	\$833M	57%	\$291M	\$496M	\$206M	71%
Lincoln	\$1.0B	\$4.3B	\$3.3B	313%	\$155M	\$654M	\$499M	322%
Meade	\$806M	\$1.3B	\$533M	66%	\$110M	\$292M	\$182M	166%
Miner	\$131M	\$157M	\$26M	20%	\$32M	\$39M	\$6M	20%
Pennington	\$3.5B	\$7.4B	\$4.0B	115%	\$389M	\$1.6B	\$1.2B	311%
Shannon	\$85M	\$132M	\$47M	55%	\$11M	\$76M	\$66M	628%

*In the new analysis we estimate that South Dakota's CNW is greater and its TOW opportunity materially larger when compared to the 2005 study. There are three primary rationales that explain these differences. First, we are using an enhanced methodology that better captures wealth related to agricultural real estate and closely-held family businesses. Second, we are now better able to reflect how age cohort demographic changes impact wealth holding as South Dakota ages. Finally, there are fundamental changes occurring in agricultural real estate reflecting both national and international trends resulting in highest estimates of ARE wealth.*



*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](http://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. To learn more about RUPRI, visit [www.rupri.org](http://www.rupri.org).*



*The Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. Original founding support to develop our TOW analysis was provided by the Nebraska Community Foundation (NCF). For more information about NCF, visit [www.nebcommfound.org](http://www.nebcommfound.org). Subsequent and ongoing support for the RUPRI Center for Rural Entrepreneurship and our TOW Analysis is being provided by RUPRI and regional funding partners. The authors of this study include Don Macke (Project Leader), Ahmet Binerer (Research Analyst), and Dr. Deborah Markley (Editor).*

