

Montana

policy REVIEW

Sustaining Montana
Communities Through
Philanthropy



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S P R I N G 2 0 1 2

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The Montana State University Local Government Center is an educational outreach organization whose purpose is to strengthen the capacities of Montana's local governmental units to deliver essential services efficiently and to provide training, technical assistance, and research to local officials, (MCA 20-25-237).

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Introduction

With recent population shifts and declines, diminishing funding from state and federal sources, and an aging populace, important transformations are occurring across the landscape of Montana. Transfer of wealth has become a significant topic in the state due to these changes. Over the past half century, Montanans have accumulated \$39.45 billion in personal wealth as of 2005. That number is expected to reach \$62.97 billion in the next fifty years. Much of the wealth built by previous generations is now in the process of being transferred from the current generation to the next, and in many instances is given to beneficiaries outside the state of Montana. This represents a tremendous opportunity in Montana to capture some of this wealth and direct it towards building communities and creating programs to help them flourish.

This issue of the *Montana Policy Review*, titled “Sustaining Montana Communities through Philanthropy,” examines the various challenges and opportunities regarding the transferable wealth that may be leaving the state. In the nine articles that follow, you will read about this type of rural philanthropy from the people who are actively engaged in the transfer of wealth arena. Topics range from overviews of community foundations and philanthropic organizations, strategic partnerships between the federal government and charitable groups, inheritance laws and upcoming policy changes, factors and motivations behind charitable giving in rural and urban Montana, and inspiring stories of successful philanthropy in communities across the region and throughout the U.S.

Communities across the state are looking for creative ways to encourage charitable giving and develop solutions to overcome future challenges facing Montana. As the editors of the Spring 2012 *Montana Policy Review*, we hope you find this issue informative and inspiring in this endeavor.

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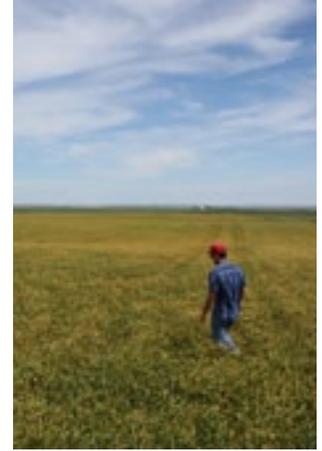
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April 20, 2012



Taking Responsibility for the Future of Our Hometowns



By Linda Reed

What could we do with an extra \$300 million every year to invest in our communities? According to the 2011 Transfer of Wealth Study commissioned by the Montana Community Foundation, this amount could be available if we all decided to invest part of our estate back into our hometown.

Montana, as well as the rest of the nation, is in the midst of the largest inter-generational transfer of wealth in human history. After World War II, soldiers returned home, got college educations, started businesses, found good paying jobs, and invested in their farms and ranches. The economy was strong and generally people built and accumulated wealth. Now that wealth is being transferred to the next generation.

Over the next 50 years, the study projects \$123 billion will transfer from one Montana generation to another. If just five percent of this amount was saved in permanent community endowments and five percent of the endowment was distributed every year, Montana communities would have \$300 million to invest in community development. If 50 years is too long to wait, the study tells us that \$12 billion will transfer in 10 years. That could result in \$31 million every year for communities to invest, if we decide to give back to our hometowns. Can you imagine what could happen?

In ten years many more counties in Montana will turn a deeper shade of red unless we begin to make investments in our communities now.

Very soon deaths are going to exceed births and any population growth will be determined by the number of immigrants moving to Montana.

Capturing a Portion of the Inter-generational Wealth Transfer is Important Now

Revenues from federal and state sources that have historically supported community development will decline. Reversing the growth in the national debt is causing fewer dollars to transfer to state governments. This means there will be less from state governments to transfer to local governments. Local governments will be challenged to do much more than repair roads, support police and fire, pick up the garbage, and maintain water and sewer systems. These are all vital services we expect when we live in a community, but they are not necessarily part of the infrastructure that encourages us to stay in or move to a community.

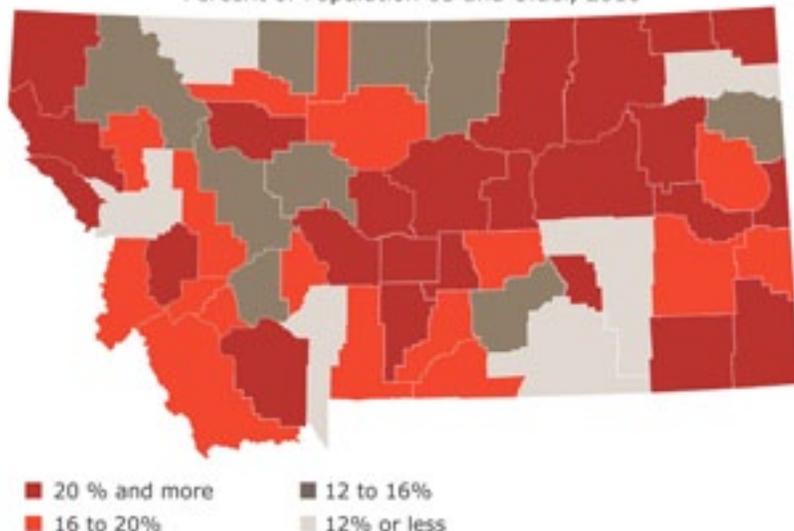
Montanans are aging. Soon Montana will have one of the oldest populations in the nation. This has several implications for the future of communities and the state. How will this impact the tax base? Will there be increasing demands for social and health services? What does that do to community volunteerism? Will seniors be as able and willing to support charitable and community work?

If we want Montana communities to be places where young working people choose to live, work, and raise families, we need to invest in them now and always.

No one is going to bail us out—not government, not business, and not foundations. Either we decide to sustain and build our communities by design or they will decline by default. It all depends on what we want. If we fail to make investments now, we'll get along. Is that good enough? Is "getting along" enough to keep young people and attract new families? Or will we look back in 20 years to see more store fronts boarded up, post offices closed, schools facing closure, and home values declining?

Usually family wealth is left to heirs; sometimes charities are also included. This is as it should be. It is not as common to think about leaving part of our estate to our hometown. Yet it is this collective of people and infrastructure that helped us build our wealth. This is the place where we wanted to live and where we thought we could build good lives for ourselves and our families. It might be the place where you hope your children and grandchildren can build a good life too.

Percent of Population 65 and Older, 2010



Why then is it not logical that we invest in the future of our hometowns just like we do our heirs and favorite charities? The answer might be as simple as “I never thought about it,” or as puzzling as wondering which organization would be the beneficiary of your gift. The answer to the puzzle is a community foundation.

Community Foundations Pave the Way

A community foundation is a tax-exempt public charity that serves people with the common interest of improving the quality of the place they live. They often represent towns and counties. We have many – 75 in fact – in Montana, plus the Montana Community Foundation that represents the whole state. There is no reason we couldn't have more.

A community foundation consists of local people contributing locally-made wealth to a local organization, governed by community members who identify local opportunities and challenges, and then make investments to address both.

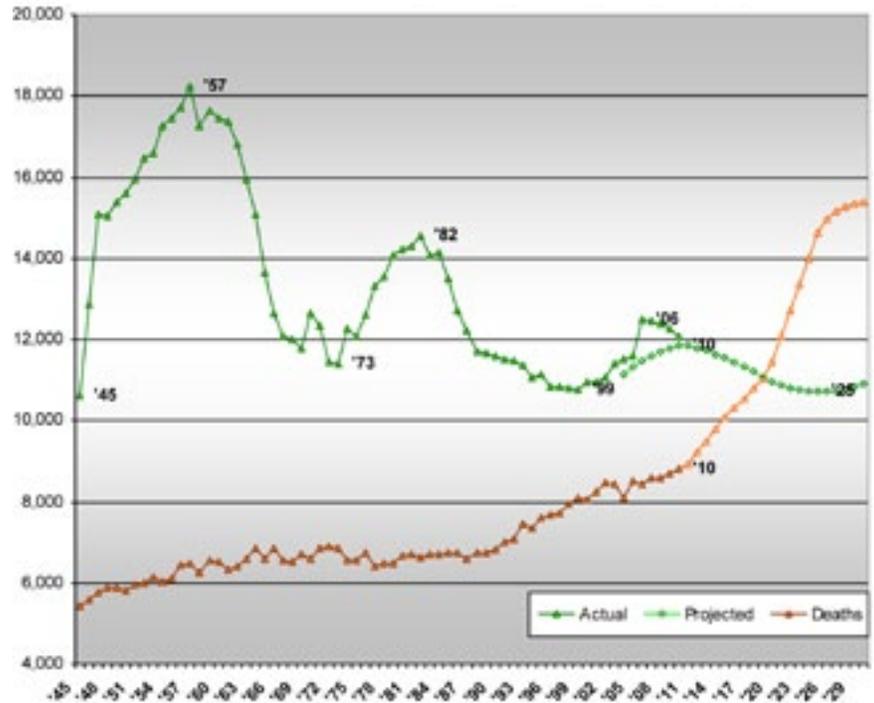
A local community foundation is the organization best suited to steward community wealth. It is the organization that can work across community sectors—elected government, non-profits, churches, service clubs, schools, and residents—to identify investment projects that will lead to richer community vitality.

Having unrestricted money to invest back in a community will support a variety of community needs, but the most useful in creating vital communities are leadership development, entrepreneurship, and community amenities.

Creating Coalitions Creates Jobs and Community Infrastructure

From 2003-2010, 35 Montana communities participated in the Northwest Area Foundation Horizons project. Montana State University Extension delivered 18 months of training to local groups who came together to learn more about community leadership and how they could reduce community poverty. As a result of the investment in community leadership, “74.9 percent of participants said they now have a greater awareness of their strengths within the community, and 94.1 percent report that training increased their leadership skills.”¹ That leadership capability led to projects that resulted in new jobs, community beautification, increased communication within the community, and many new local community foundations. The community leadership teams realized that they needed to institutionalize the Horizons work and a local community foundation fit their needs perfectly. These organizations are places where community leaders join together to identify local needs and opportunities, learn how to build collaborations, reach out to other community members to seek their opinions and help, build a community vision, and implement a development plan that is sustainable.

Annual Births and Deaths in Montana — Actual (1945-2010) and Projected (2011-2030)



Source: Actual (Montana Vital Statistics, 2011) and Projected (births, U.S. Census Bureau, March, '05; deaths: Larry Swanson, OCRMW)

Having a permanent financial resource to nurture this work is a critical component of sustainability.

Job creation is critical to every community and the state. In rural places, jobs are most often created one and two at a time by local people who decide to generate their own jobs or to go into business for themselves. Local investments in building renovation, Internet access, teacher training in entrepreneurship, and mentoring programs between high school students and local business owners wanting to retire are just some ways contributing to a community foundation could build the resources needed for investment in community job building.

But we can't just focus our attention on job creation. At the same time, we need to be prepared to make investments in infrastructure that makes it enjoyable to live in a place. Often the first question a potential newcomer to a community asks is, “How are the schools?” Then they will ask about medical services. Then “What's there to do?” “Do you have a library, after-school programs, museum, art gallery, community recreation programs, a community garden...?” In the past, development and care of this type of community infrastructure often fell on the shoulders of local government. In the future there is a real question about whether local government will have the money to make these investments. If our amenity infrastructure is going to be built and maintained, the community will have to come together to do it. Having a well-funded local community foundation means there will be money to invest back into infrastructure that makes a community a place we want to call home.

1 Montana Policy Review, Spring 2011, Volume 1



Montana Communities are Finding Success

Seeley Lake Community Foundation is one example of how a local community foundation is investing money from its unrestricted endowment into leadership, economic, and amenity development – all with the goal of keeping the community vibrant.

The Seeley Lake Community Foundation represents the people in an unincorporated community in Missoula County. It is helping transform this community from a timber-dependent place to one where the infrastructure will support new economic opportunities and where families can choose to live. In its early years, the Seeley Community Foundation focused on making grants to local non-profits. As the board's skills developed, more attention was placed on community opportunities rather than needs. One of those opportunities was their school and its great leadership. When the students asked for a playground, the community foundation was the catalyst for raising money for and coordinating the construction of the town's first playground. After successfully completing its first leadership project, the community foundation was eager to take on others.

The town has long known that its economy is dependent on Pyramid Lumber Company and summer recreation. Thinking about diversification resulted in the idea that developing a Nordic Ski Center could have merit. It would utilize the community's resort infrastructure beyond the warm months and bring new revenues to the town. The community foundation recognized that one barrier to success was the quality of the winter air. Seeking to understand what contributed to air pollution, the Missoula County Health Department commissioned an air quality study. To the surprise of many, the high particulate count was attributable to wood burning stoves – especially from homes nearest the school. The community foundation is now working with homeowners to replace 25 high-emitting wood burning stoves and providing community-wide training in methods of stacking wood that will lead to

cleaner burning. With a solution in sight to improving the winter air (not to mention improving the air around the school), the community foundation is on to the next step to help build a Nordic Ski Center. In collaboration with the Missoula Community Foundation, Missoula county government, the forest district and others, a plan is underway to designate and build up a 49-mile trail from Missoula to Seeley Lake. The original trail was reportedly blazed by Norman McLean and his brother as they hiked from Missoula to their family cabin on Seeley Lake. When built, the trail will support hikers in the summer and skiers in the winter. The community foundation's demonstrated leadership in building a strong amenity-based infrastructure is supporting diversification of the economy and job creation. It is also making the Seeley Lake Community Foundation the "go to" organization in town, which is resulting in more contributions to its endowment.

There are many other stories about local community foundations transforming their communities. You can get a list of Montana's community foundations at www.mtcf.org under the Local Community Foundation button. Please make contact with your local community foundation to learn about their good work and how you can become a partner in building your community's future.

So, the questions for all of us to answer are:

- Do we care enough about our hometowns to invest in them?
- Do we want them to continue to be places where people can find work worth doing, choose to live, and want to live raise children?
- The Transfer of Wealth Study tells us we have wealth. It will only take a small amount of it to keep our communities vibrant places where people can build good lives.

To learn how you can help your hometown, contact the Montana Community Foundation or any of the 75 local community foundations in Montana.

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Aging Patterns and Impending Growth in Montana's Elderly

By Larry Swanson

Population trends in coming years will have a significant impact on transfer of wealth in Montana. Over the last twenty years, from 1990 to 2010, Montana's total population grew by 190,000 people. Growth among persons 65 years of age and older accounted for 21 percent of this growth and their share of the total population rose from 13 to 15 percent.

Over the next twenty years, from 2010 to 2030, Montana's total population will grow by just over 180,000 people—with growth among those 65 and older accounting for nearly 70 percent of the total population increase.

As this occurs, Montana's population 65 and older will rise as a percent of the population from 15 to over 23 percent of the total, rising from almost 147,000 individuals in 2010 to nearly 273,000.

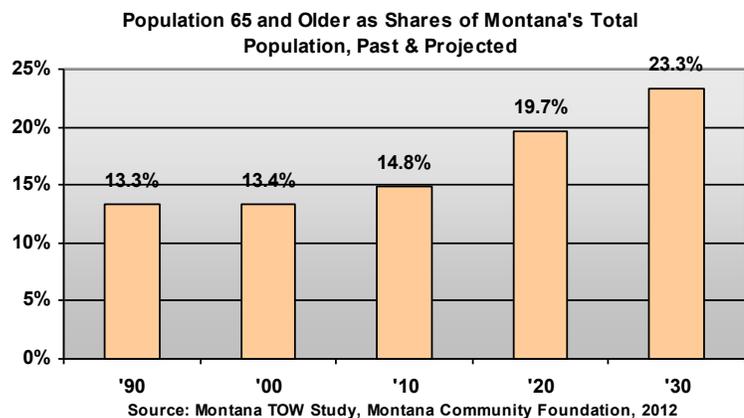
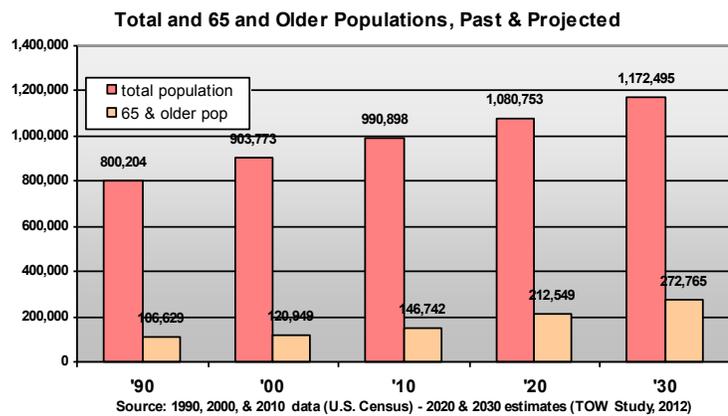
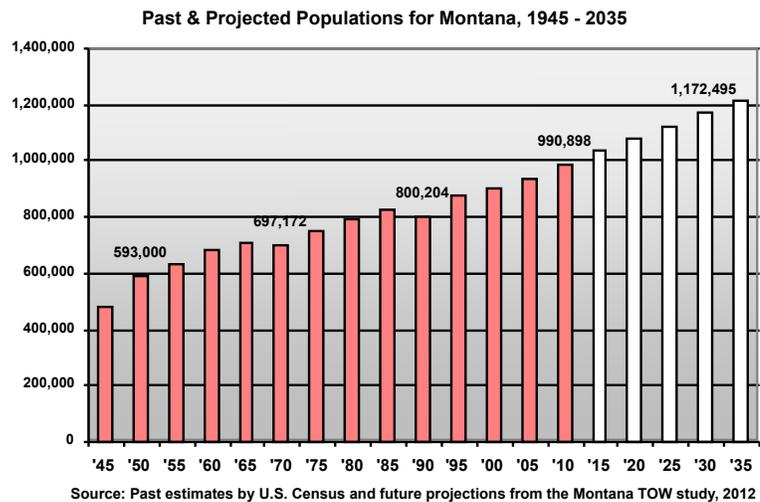
While the population of the U.S. as a whole is aging, Montana is projected to be among the four or five oldest states in the nation as measured by the 65 and older population as a share of the total.

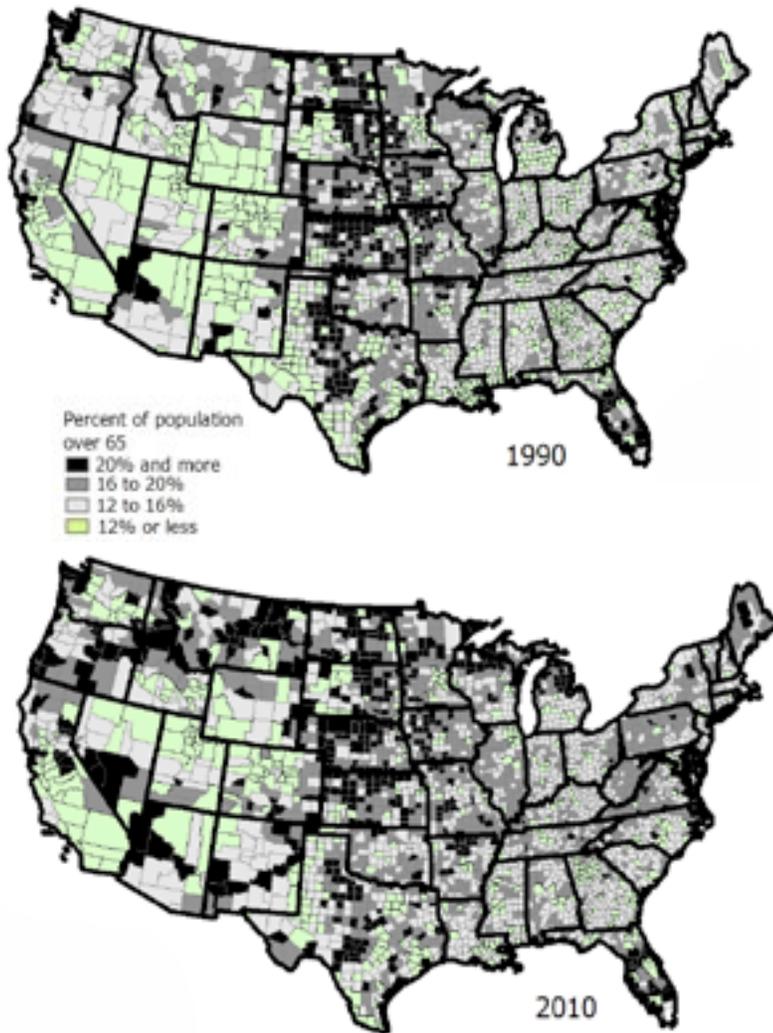
Just as some states are aging faster than others in the U.S., some areas within Montana and the larger region are aging faster than others. The maps, on the following page, show how this is occurring at the county level across the 48 contiguous states.

The top map shows counties with relatively "young" populations in 1990, as well as ones with relatively "old" populations. Within the map, "young" counties are ones whose 65 and older populations are 12 percent or less of the total. These are shown in green. "Old" counties are ones where these senior populations are 20 percent or more of the total. These are shown in black. Counties whose senior populations fall between 12 and 20 percent are shown in medium and dark gray tones.

Only five of Montana's 56 counties had senior populations greater than 20 percent of the total in 1990. Twenty years later in 2010 (lower map), this had grown to 25 counties. By 2030 this will expand further to include almost all of Montana's counties. And in some of the counties, this senior population will represent over one-third of all area residents.

Why is this aging happening? Largely, it's because of how the U.S. population grew after World War II, with rapidly rising births from the end of the war through the mid-'50s. This "bubble" of baby





boomers—persons born between 1947 and 1963—will increasingly reach 65 and beyond over the next fifteen years. Those born in the peak years for boomers – 1956 and 1957 – won’t reach 65 until around 2021 or 2022. And they won’t reach ages of life expectancy (75 and older) until 2031 and beyond. So, we can expect the number of deaths to rise in Montana through 2030 and beyond. This underlying aging process won’t go on forever. But it will continue for most of the next 20 to 25 years before it begins to gradually dissipate.

Throughout Montana’s history, there have always been more births than deaths on an annual basis. But as we approach 2020, the number of deaths statewide will begin to exceed births year-after-year for quite some time.

Over the next 25 years, Montana and many other areas where this aging is pronounced—including many areas of the northern and central Plains—will have to deal with implications of this aging. There will be challenges, but there will also be opportunities.

As more people and a greater proportion of people reach 65 and older, most enter a different phase in their lives. Many retire. Many begin to think more seriously about end-of-life decisions, including what they will do with their accumulated assets and wealth, at the time of their death. This becomes a prime opportunity to re-think or think anew about how some of this wealth may go toward providing for better communities. It becomes a time to think more and more about the future of these communities and the assets that will sustain them.

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Rural Philanthropy Partnerships

By Matt Jones

Rural America abounds with potential, but we must better use a powerful tool capable of also improving opportunity in rural America: philanthropic partnerships.

—U.S. Secretary of Agriculture Tom Vilsack

On August 11, 2011, U.S. Department of Agriculture Secretary Tom Vilsack and Council on Foundations CEO Steve Gunderson signed a Memorandum of Understanding (MOU) aimed at promoting greater collaboration between USDA and philanthropies around the country. The primary goal of the move was to determine ways in which the organizations' collective resources can be leveraged more strategically to promote economic prosperity, opportunity and livability in rural America.

Many federal programs are facing prolonged cutbacks that will have a disproportionate impact on rural America.¹ At the same time, philanthropic investment in rural areas is declining even though overall foundation spending is on the upswing.² The agreement between USDA and the Council tackles this two-sided problem by seeking to leverage all resources efficiently and to match foundation and public programs with critical needs in rural communities through better information sharing. The agreement is not suggesting private foundations should fill the void left where federal or state programs may be forced to cut back. Instead it recognizes resources are scarce on both sides, investments should be strategic, and USDA's presence in rural communities throughout America is a tremendous source of information for interested philanthropic organizations. More than five years ago, U.S. Senator Max Baucus drew much-needed attention to the "rural philanthropic divide" at the annual meeting of the Council on Foundations. Senator Baucus pointed out that nationwide average foundation grants per capita were \$104. In ten rural states, including Montana, the average grant per capita was \$35.³ It's possible that much of this divide results

from a lack of information about rural areas and needs. USDA is in a position to help communities get that information to the philanthropic community.

Through the White House Rural Council, chaired by Secretary Vilsack, the Obama Administration has been keenly focused on job creation and economic opportunity in rural America. The vitality of rural America is critical to ensuring the strength of the U.S. economy, the affordability of food, energy independence, and the vibrancy of small communities.⁴ Rural America is home to 50 million people working in a broad set of industries. The agriculture sector alone supports 1.8 million American jobs and represents five percent of our exports. Productivity of American farmers and ranchers is the highest in the world. Rural communities are also integrated with the great American outdoors. Recreation in National Forests sustains more than 224,000 jobs and generates \$13 billion of annual spending in surrounding communities. The National Park System and other Department of Interior managed lands attract approximately eight percent of overall tourism spending in the U.S.

Despite its significant strengths and potential, rural America still faces challenges. Many rural communities have lower incomes, higher poverty rates, worse health outcomes, and lower educational attainment than urban and suburban areas.⁵

Overcoming these challenges and unleashing the vast potential of rural America will require more investment and innovation. USDA is helping to tap that potential through agricultural export promotion, broadband

⁴ Jobs and Economic Security for Rural America, White House Rural Council, August 2011

⁵ *Ibid.*

¹ States receiving the most federal spending per dollar of taxes paid are predominantly rural. Tax Foundation, Federal Spending in Each State Per Dollar of Federal Taxes FY 2005, <http://taxfoundation.org/research/show/266.html>

² See Rick Cohen, No Surprises, Rural Philanthropy Still Lags Behind, Feb. 22, 2011.

³ Statement of U.S. Senator Max Baucus at the Council on Foundations Annual Meeting, Pittsburgh, Pennsylvania, May 2006. (*The ten states that receive the least funding from foundations are all rural states. They are: Montana, North Dakota, South Dakota, Alaska, Wyoming, Mississippi, West Virginia, Maine, Vermont, and New Hampshire.*) <http://finance.senate.gov/newsroom/ranking/release/?id=5fb720b3-f3f5-4799-a4cc-861fd581ff5f>



investment, energy production, and support for rural entrepreneurship. These efforts create value-added chains for agriculture and make rural America competitive. USDA programs also support quality-of-life issues like education, healthcare and community services, helping to make rural communities better places to live and raise families. Federal programs, however, are not sufficient on their own. Funding from multiple sources is needed, particularly for community assets and infrastructure. USDA recognizes that philanthropic organizations are key partners in our efforts and provide a means of stretching public funds.

The agreement between USDA and the Council on Foundations bears directly on the work that USDA Rural Development is doing in Montana. USDA Rural Development's mission is to increase economic opportunity and improve the quality of life for all rural Americans. The Agency's motto—*Committed to the future of rural communities*—recognizes that fulfilling this mission requires building on that fundamental social network—the community.

As the steel tycoon turned philanthropist Andrew Carnegie said, “The best means of benefiting the community is to place within its reach the ladders upon which the aspiring can rise.” Rural Development's array of programs builds those ladders for communities by supporting commercial investment, affordable housing, critical infrastructure, and development of essential community facilities in rural areas.

During the last three years, Rural Development financing tools were readily available, largely as a result of additional resources provided by Congress through the American Recovery and Reinvestment Act. Rural Development programs supported more than \$1 billion of investment in Montana from 2009 to 2011. Nearly 4,000 families purchased homes with USDA support, and we worked with dozens of communities and organizations on projects ranging from the Stevensville sewer system to the High Line Retirement Center in Malta. Rural Development investments through the Recovery Act helped to maintain and create 3,700 jobs in Montana.

Expiration of the American Recovery and Reinvestment Act coupled with greater focus on reducing the nation's deficit means program cuts for many agencies, including Rural Development and the other programs

USDA leverages like Community Development Block Grants and HOME funds through the Department of Housing and Urban Development. Unfortunately, the reduction in USDA and other programs is not matched by a decline in demand for the services or by an increase in the ability of rural communities to meet the needs on their own. This means Rural Development and our partners are going to have to be better at finding other resources to stretch program dollars.

That is where the agreement between USDA and the Council on Foundations comes in. With a primary goal of determining ways in which our collective resources can be leveraged more strategically, the memorandum commits the parties to explore opportunities that complement each others' activities in rural communities. Identified activities include quarterly engagement, a survey of existing programs and investments, and leveraging resources in complementary areas.

Engagement

Through regular meetings, USDA and the Council on Foundations will share information about various programs and initiatives, as well as opportunities and barriers. The parties will seek to identify the most effective ways of sharing information about funding and investment opportunities in rural America. Here in Montana, USDA's Food and Agriculture Council, an interagency forum to coordinate program delivery and streamline operations among USDA agencies, is incorporating rural philanthropy into the agenda for 2012. The Council will serve as a regular venue for communication with the philanthropic and non-profit sectors. Through USDA's Center for Faith-Based and Neighborhood Partnerships, participating agencies will develop partnerships focusing on initiatives such as End Childhood Hunger; Know Your Farmer, Know Your Food; and America's Great Outdoors. The group will also examine the impact of the looming inter-generational transfer of wealth on Montana's rural economy.

Programmatic Survey

USDA is currently working to identify existing programs where collaboration makes sense and promises better results. Likely candidates already include the Rural Community Development Initiative, Community Facilities programs, and Community Forestry and Farmland Protection Programs. In Montana, Rural Development is already working alongside foundations through non-profit organizations to finance essential community facilities. The Boys & Girls Club of the Northern Cheyenne Nation received funding from Rural Development in 2010 and 2011 to make critical energy efficiency upgrades to its facility. A grant from the Paul G. Allen Foundation served as the match for USDA's investment. Where collaboration like this already exists, Rural Development will work with its partners to maximize positive results. The agency will also examine less obvious opportunities, such as our water and business programs.



Leveraging Resources

To maximize investment impact and fill funding gaps, the organizations will work to identify programs and projects that would be enhanced with complementary support from federal and philanthropic resources. The programmatic survey will lead to better leveraging and more projects being successfully completed. Currently, USDA partners with NeighborWorks Montana to provide affordable housing opportunities around the state. NeighborWorks has a strong relationship with several foundations that support its mission, including Kellogg, Northwest Area, M.J. Murdock, First Interstate BancSystem and the Paul G. Allen foundations. A number of Montana foundations also support NeighborWorks programs, including the W.E. and O.P. Edwards, Blankenbaker, and Dennis and Phyllis Washington foundations. Philanthropic dollars provide the necessary private match funds for the Individual Development Account program. It is a matched savings and financial education program, where the participant saves at least \$1000 while attending financial education classes and homeownership training. Many participants use their savings to qualify for a mortgage through Rural Development's direct loan program. Through efforts initiated by the MOU, USDA and the philanthropic community will gain a clearer view of opportunities to develop creative solutions to funding problems. Community foundations, for example, have the flexibility to play an innovative role. There may be opportunities to build capacity for community-based organizations, to provide credit support for those organizations, or to raise funds for professional services required in developing a capital project.

The most important outcome to be achieved by this effort will be a greater understanding about the investments needed in rural America to provide essential services like healthcare, safe drinking water and education to attract business investment, and to maintain the rural quality of life. Much of this investment can come directly from the communities. According to the Montana Community Foundation, the accumulated wealth of Montana residents is nearly \$40 billion. A very large percentage of that is invested outside Montana. Effective collaboration among USDA, foundations, and communities will demonstrate the value of investing where a person lives and hopefully will stimulate greater philanthropy in rural America.

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Who Gets Your Property When You Die?

By Marsha Goetting

Do you know who receives your property when you die? You may need to double-check your paperwork, particularly if you want to leave an asset to charity. Researchers have found that 55 to 70 percent of Americans die without writing a will. Realizing this fact, the Montana legislature passed the Uniform Probate Code (UPC) in 1975. The purposes of the act were to streamline the probate process and to standardize and modernize the various state laws governing wills, trusts, and intestacy (dying without a will). Although the UPC was intended for adoption by all 50 states, the original version of the code was adopted in its entirety by only 16 states, one of which was Montana.

Many Montanans assume the UPC distributes property the same way they would, so there is no need to formalize their bequests with a will, trust or beneficiary designation. The following situations illustrate how people can often unintentionally disinherit family members because they are unaware of provisions in the UPC. Were your guesses correct?

Example 1: Property titled in sole ownership; no written will.

Assume that Jack died without writing a will and all property valued at \$800,000 was in his name only. Jack's survivors were his wife and parents (Figure 1). What dollar amount, if any, did Jack's wife receive?

1. \$800,000
2. \$650,000
3. \$550,000
4. \$400,000
5. None, all passes to the state of Montana because Jack did not write a will

The most common response is #1. People believe that Jack's wife receives all \$800,000, which is the wrong answer. Why? The UPC provides for the surviving spouse to receive the first \$200,000 in value of the estate and three-fourths of the balance. Because the

property was solely in Jack's name, the remaining balance of one-fourth passes equally to his parents. Thus, Jack's wife receives \$650,000. Jack's father and mother receive \$75,000 apiece.

Example 2: Property titled in joint tenancy with right of survivorship; no written will.

Assume that Tim and Sharon, a married couple without children, had titled all their property in joint tenancy with right of survivorship. They had not written a will. They died as a result of an automobile accident. Tim died before the ambulance arrived and Sharon passed away in the hospital three days later (Figure 2). Who receives their property?

1. State of Montana because Tim and Sharon had no written will
2. Tim's parents
3. Sharon's parents
4. Half to Tim's parents and half to Sharon's parents
5. Half to Tim brothers and half to Sharon's sisters

Most people choose #3, thinking Sharon's parents would receive the property because she survived Tim by three days. They are wrong. The property passes one-half to Tim's parents and one-half to Sharon's parents. Why? The UPC states that "if property is held in joint tenancy with right of survivorship and neither survives the other by 120 hours, then the property is split equally between their heirs." In this case the priority heirs are Tim and Sharon's parents, not their brothers and sisters.

Who gets the property if Sharon dies on the eighth day? Sharon's parents. Why? Because Sharon lived beyond the 120 hours (5 days), she became the heir and, after her death the property passes to her priority heirs: her parents. Who gets the property if Tim dies on the eighth day? Tim's parents.



Figure 1

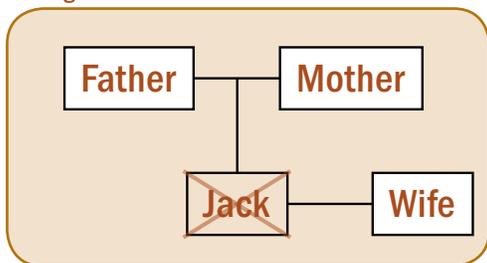
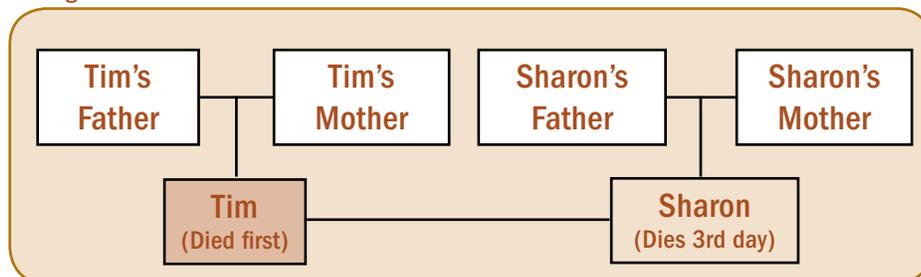


Figure 2



In summary, very few Montanans are aware that by titling property in joint tenancy with right of survivorship and by not writing a will, their property could pass to unintended heirs. A written will could assure that an inheritance does not get passed to one set of heirs simply because their relative survived the longest.

Example 3: Property held in joint tenancy with right of survivorship with a written will in existence.

Assume Gary, age 67, has remarried after his wife passed away a year ago. He titled his ranch in joint tenancy with his new wife shortly after their marriage. His two adult children have “concerns” but Dad told them not to worry because he has written a will leaving them the entire ranch (Figure 3). If Gary dies, who receives the ranch?

1. Gary’s new wife
2. Gary’s children as directed in the will
3. Gary’s kids receive half and his wife receives half
4. Gary’s kids receive three-fourths and his wife receives one-fourth

Most people choose #2, thinking that Gary’s children receive the ranch because the will was written after the joint tenancy with right of survivorship between Gary and his new wife established. Wrong! The joint tenancy title to the ranch is a contract. Gary cannot undo the contract with his written will.

Any property that is held in joint tenancy with right of survivorship passes to the surviving joint tenant. It doesn’t matter if the asset is a savings account with a balance of \$500 or a \$5 million farm or ranch. It doesn’t matter if a person wrote a will leaving the property to someone else who is not a part of the joint tenancy. The surviving joint tenant receives the property. In Gary’s case, it’s no wonder the children are “concerned,” as their dad is unaware of the consequences of Montana joint tenancy contractual law. He has disinherited them without realizing it. To make matters worse, if Gary’s wife dies more than 120 hours after he does, her children receive the ranch and not Gary’s children.

Leaving Assets to Charities

You have an opportunity to make decisions about who you want to receive your property after death. For many Montanans, family members are their priority

heirs. Those with heirs who are financially successful may want some of their assets to pass to a charitable organization. While wills and trusts with provisions for bequests to favorite charities are the most common ways of leaving assets, there are other methods that could be easier or provide more flexibility for a property owner during life.

The Montana Uniform Probate Code allows you to pass your assets by utilizing specific contractual arrangements. Examples of these types of arrangements include payable on death designations (PODs), transfer on death registrations (TODs), beneficiary designations, and beneficiary deeds.

Payable on Death Designations (PODs)

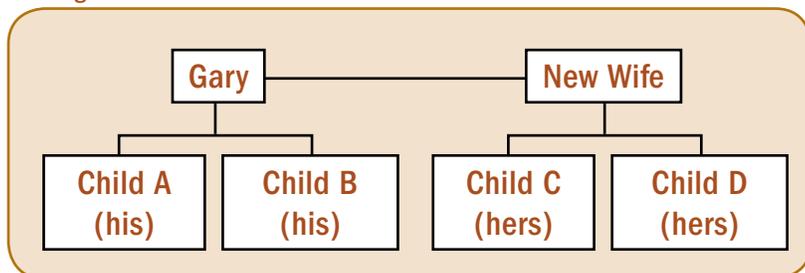
While most Montanans have checking and savings accounts for day-to-day living expenses, certificates of deposit (CDs) are also popular saving vehicles used by families for emergencies, vacations, and retirement. Many have U.S. Savings bonds that they purchased or received as gifts.

With a payable on death designation (POD), you can name a charity as the POD beneficiary of your checking, savings, CDs, and savings bonds. A POD allows you to keep control of the funds during your lifetime, using the money as needed. Your POD beneficiary has no ownership in your account. After your death, the balance in the account passes to the POD beneficiary that you have designated. POD forms are available from your financial institution. There is no probate required on the assets in your financial accounts passing directly to designated beneficiaries.

Transfer on Death Registrations (TODs)

A TOD is similar to a POD, but is used to designate a beneficiary for stocks, bonds, and mutual funds. The Montana Uniform Transfers on Death Security Registration Act allows you, as an owner of securities, to register a beneficiary to receive the title after your death. Whether the securities are held in certificate or as a “street account,” a TOD can be completed and kept with an issuer, transfer agent, broker or other intermediary. Your TOD beneficiary has no ownership rights in your stocks, bonds, or mutual funds. Upon your death, the securities are transferred directly to designated beneficiaries, such as a community foundation or other charity. Downloadable TOD forms

Figure 3



can be typically found at the web site of the company where your account is held. Like the POD, assets in a TOD transfer to beneficiaries without probate.

Beneficiary Designations

The Montana Uniform Probate Code also allows the naming of community foundations or other charitable organizations as beneficiaries on other accounts such as:

- Life insurance and annuity policies;
- Qualified and nonqualified deferred compensation plans [401(k), 403 (b), 457];
- Individual retirement accounts (Roth and Traditional);
- Employee benefit plans (SEPs, SIMPLEs) and Keogh retirement accounts.

Downloadable beneficiary designation forms for naming beneficiaries can often be found at the web site of the company where the account is held. With beneficiary designations on these types of financial accounts, you can assure that your favorite community foundation or other charity receives the balance in the account after you pass away.

Further information about PODs, TODs, contractual arrangements and other non-probate transfers are available in the MSU Extension MontGuide, *Nonprobate Transfers*, <http://msuextension.org/publications/FamilyFinancialManagement/MT199509HR.pdf>.

Beneficiary Deeds

Montana law also allows you to pass your real property to designated grantee beneficiaries without probate. You must have signed and recorded a beneficiary deed with the clerk and recorder in the Montana county where your real property is located. For example, if you own land in Gallatin and Richland counties, you must file a beneficiary deed with the legal description of each parcel with the clerk and recorder in each county.

As an owner of real property, you are not required to have the signature, consent, or agreement of the grantee beneficiary. Nor are you required to give the grantee beneficiary notice that a beneficiary deed has been recorded. The grantee beneficiary has absolutely no ownership rights in the Montana real property described on the beneficiary deed until you die.

By filing a beneficiary deed and naming a community foundation or other charity as the grantee beneficiary, you can assure that the organization receives real property after you pass away without the asset going through probate. The charitable organization becomes owner of an asset that could produce income or could be sold and the funds used for the benefit of the charity.

Further information about beneficiary deeds is available in the MSU Extension MontGuide, *Beneficiary Deeds in Montana*, <http://msuextension.org/publications/FamilyFinancialManagement/MT200707HR.pdf>.

How to Make the Charitable Designation

Once you decide to name a community foundation or other charity as a POD, TOD, or other type of beneficiary, contact the specific organization to ask for its official legal name, address, and federal taxpayer identification number. The number will help the financial entity holding your funds to identify the correct charity at the time of their claim. For example, a person desiring to leave a bequest using a POD, TOD, beneficiary designation, or beneficiary deed to the Montana Community Foundation or Montana 4-H Foundation would write:

The Montana Community Foundation
1 N. Last Chance Gulch, Suite 1
Helena, MT 59601
Federal Taxpayer Identification Number 81-0450150

Montana 4-H Foundation
Montana State University
P.O. Box 173580
Bozeman, MT 59717-3582
Federal Taxpayer Identification Number 23-7051460

What if I have already written a will or established a trust and also have beneficiary designations?

Part of the process of estate planning is coordinating your will or trust with your other contractual arrangements, such as beneficiary designations on your financial accounts or real property. Charitable organizations designated as beneficiaries in any of the aforementioned contractual arrangements receive the property upon the death of the owner regardless of any provisions in your will or trust. In other words, if your will contains a provision for a community foundation to receive your life insurance proceeds, but your spouse was listed as beneficiary on a beneficiary designation form, your spouse receives the proceeds, not the community foundation. The beneficiary designation form is a contract.

The only circumstances when your will or trust would determine the distribution of your asset is when you name “the estate” as the beneficiary or if all your beneficiaries are deceased. The asset would then be included as a part of your estate and then distributed according to the provisions in your will or trust (assuming the asset in the trust was retitled in the name of the trust).

If you named your estate as the beneficiary of your life insurance proceeds and also executed a will or trust containing a provision for a community foundation to receive the amount of your life insurance proceeds, then the foundation would receive the specified amount.



Summary

Everyone needs to decide about the final disposition of their hard-earned assets and then execute the appropriate legal documents to ensure their final wishes are carried out. Montana law provides for PODs, TODs, beneficiary designations, beneficiary deeds, wills and trusts as legal documents for achieving your estate planning goals of assuring that your property passes to the persons or charitable organizations you want.

MSU Extension has a series of 33 MontGuides explaining a variety of estate planning tools that are available without charge from local Montana State University Extension offices. Or, they may be downloaded from the Web at www.montana.edu/estateplanning. Single printed copies are also free from MSU Extension Distribution Center, PO Box 172040, Bozeman, MT 59717, email: orderpubs@montana.edu. Or go online to the MSU Extension Distribution Center Online Store at www.msueextension.org/store.

If you want to find out who receives your property if you die without a will, go to the interactive MSU Extension website: www.montana.edu/dyingwithoutawill.

MSU Extension also has a series of webinars in the estate planning area at: www.montana.edu/extensionecon/webinars.html.

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Crossing the Philanthropic Divide:

A MILESTONE FOR PHILANTHROPY



By Lisa Titus

When Michael Schechtman and the Big Sky Institute for the Advancement of Non-profits coined the phrase “Philanthropic Divide” over 10 years ago to describe the lack of national foundation funding sources in rural states like Montana, he likely hoped that a good deal of that gap would have been filled by now. However, a decade later—despite significant speeches and conferences—there appears to be no measurable movement in foundation investment in rural communities and Montana. Why? The economy (which prompted many foundations to pull back from newer areas of investment) played a role, but is there a deeper root to this divide and is policy the path to correction?

The Problem

The purpose of highlighting the divide was to illustrate the significant disparity in the number of foundation assets within most rural states and hence the need for national foundations to contribute more. Schechtman identified 10 states that were consistently at the bottom of the list for philanthropic dollars from national foundations – Montana was number 49. Our state’s per capita giving from foundations was 76 percent lower than the national average and 90 percent lower than the per capita giving in the number one state – New York.¹

These numbers got the attention of Senator Max Baucus, who made a speech in 2006 to the Council on Foundations challenging them to invest more in rural America.

“When it comes to grant-making, many people in rural America feel they are in the wilderness,” he said.²

The senator called on foundations to double the amount they were spending in rural areas within five years. The speech was a milestone – and led to great expectations for those involved in rural philanthropy.

Five years and six months later, however, the numbers suggest that while the speech generated much conversation and documentation, any real change in investments never materialized. Barely one percent of the \$46 billion foundations gave in 2009 was directed at rural charities. The recession played a significant part,

but other elements came into play – both cultural and structural – and these continue to impact foundation giving to Montana as a whole.

The Rural/Urban Divide

The “Philanthropic Divide” is one symptom of the rural-urban divide that has been growing in the U.S. since the turn of the 20th century. As more people migrate to urban centers, rural communities are left with older and poorer residents. Fewer connections between rural and urban communities mean the capacity to understand each other’s lives and cultures diminishes. Without that understanding, the ability to partner on projects, businesses, or even have civil discourse can disappear.

Montana is not immune to this growing divide. Currently about 65 percent of residents live within one of the seven larger, more urban centers of the state and by 2030 this percentage is expected to grow to 80 percent.³ Compounded with the hundreds of miles between communities in the state, it is very easy for a person to reside in a Montana urban area all of their life and never be exposed to the rural, agricultural and tribal communities surrounding them.

While the state as a whole finds itself in the bottom ten of states nationwide for attracting philanthropic dollars, the most rural parts of Montana can feel the same challenge to stand out amongst their urban counterparts. Indeed, when reviewing the top 50 Montana recipients of foundations grants in 2009, only eight of the communities listed are rural.⁴

Many non-profits that receive grant dollars in Montana may be headquartered in urban areas but actually serve rural communities, points out Kelly Bruggeman, the executive director of the First Interstate BancSystem Foundation. She also notes that the largest percentage of philanthropy comes from individuals and small businesses from whom statistics on the location of giving are much harder to capture (in 2010, 73 percent of philanthropic gifts in the U.S. came from individuals).⁵ This makes it difficult to assess the true

1 The Big Sky Institute (2007) – *The Philanthropic Divide 2007 Assets and Per Capita Granting Update*

2 Frank Sietzen (2006), The Washington Examiner, *Sen. Max Baucus calls for increase in rural philanthropy*. Retrieved from <http://washingtonexaminer.com/news/business/frank-sietzen-sen-max-baucus-calls-increase-rural-philanthropy#ixzz1jUX04hgz>

3 Project 2030 Montana Ageing (2008), George Haynes, Myles Watts, Doug Young, Department of Agricultural Economics and Economics, Montana State University

4 The Foundation Center’s Statistical Information Service (2009) – *Top 50 Recipients of Foundation Grants in the state of Montana, circa 2009*

5 Giving USA (2011), *The Annual Report on Philanthropy for the Year 2010*

amount of philanthropic dollars supporting rural communities within the state and the country.

Bruggeman isn't making excuses, though. She, along with other Montana foundation representatives including Mike Halligan of the Dennis and Phyllis Washington Foundation, and Jo Ann Eder of the O.P. & W.E. Edwards Foundation, express their belief in the importance of investment in rural parts of Montana to benefit the state and hopefully draw the attention of national funders as well.

It's that belief that has led them, along with regional funders like the MJ Murdock Charitable Trust, the Steele Reese Foundation and the Paul G. Allen Family Foundation, to invest in the Montana Non-profit Association as well as local community foundations to assist with training of non-profit staff, volunteers and community leaders. For these funders, building the capacity of Montana's non-profit sector is a critical step toward increasing philanthropy as a whole. They also have been working on building partnerships amongst the state's foundations, and regionally many of the foundations in the northwest are giving to Montana at record levels. As a result, local non-profits are hearing the message from these funders that rural is important.

"Funders are interested in rural parts of Montana," says Deb Neuman, executive director of Thrive, a non-profit in Bozeman. "There's a lot more interest in the rest of the state."

However, for someone like Rick Cohen, a reporter for the Non Profit Quarterly who regularly writes about rural philanthropy, the effort to build the capacity of rural communities and their non-profits is important and admirable as long as national funders aren't left off the hook.

"The reality," says Cohen, "is that rural communities don't have the same dollars to work with as their urban counterparts." To suggest that building up endowments for community foundations and non-profit capacity will be enough to make up the difference is unrealistic.

Some local foundation representatives agree and also feel that there are other leadership and policy steps that could make a difference for Montana philanthropy.

Is Policy the Answer?

Mike Halligan, the executive director of the Dennis and Phyllis Washington Foundation, is proud that more than 50 percent of their investments are in rural communities and that they collaborate with other funders, but he thinks there is more that can be done.

"We (foundations) need to walk the walk and do a better job of collaborating and meeting face to face," he says. "We need to lead the way in developing a philanthropic ethic and rewarding leaders who make philanthropy and community development a priority." He also believes the state's top foundations can play a key role in connecting national funders to the work being done in Montana.

Halligan is a big proponent of expanding the Montana endowment tax credit to include all philanthropic donations, which he feels will have a direct impact on rural communities. He also feels that non-profit community and philanthropic leaders need to further raise the profile of philanthropy in the state.

"I'm a big fan of educating public policy makers on how much non-profits have taken on and the importance of a tax credit," Halligan states.

There are also national efforts underway that could affect philanthropy in rural parts of the country and Montana. For instance, the Rural Philanthropy Growth Act proposes to "use existing USDA funding to provide challenge grants to qualifying community foundations to build community-based unrestricted endowment funds to benefit one or more economically distressed counties, and would provide capacity building grants to qualifying community foundations" (according to the suggested text).⁶

Rick Cohen points to Los Angeles Congressman Xavier Becerra's call to allow for larger deductions for social change philanthropy that funds direct service non-profits that are tackling poverty and social justice – areas that are often the focus of rural philanthropy. Becerra hasn't actually introduced legislation though, and it's unlikely he will any time soon.

People Give to What They Know

Beyond this policy is the bigger question of culture—and lack of understanding—that can skew a national funder's view of an entire state like Montana and sometimes twist the opinion of urban philanthropists within the state itself. One only needs to hear the manager of a local family foundation lament the reaction some rural Montana non-profits have to following submission guidelines to know that challenges, real or perceived, exist.

In a climate like this, policy is good, but relationships are better.

"The most effective way to do philanthropy," says Daniel Kemmis, former mayor of Missoula, non-profit and community building consultant and current board member of Philanthropy Northwest, "is to build the connections between rural and urban communities."

Gary Cunningham of the Northwest Area Foundation agrees and believes that while policy is important – and, in particular, alignment of government and foundation goals is critical if any philanthropic efforts can be sustainable – it is the exposure of urban philanthropists to the reality of rural communities that will make the most impact. He points to a "Funders Tour" of Montana several years ago which brought national foundation representatives to the state as the action that had the most positive effect on bridging the philanthropic divide.



⁶ Retrieved from www.foundationsonthehill.org/docs/RPGA-0228.pdf

“The Funders Tour was so powerful and helped me get a better view of Montana,” he says. According to Jo Ann Eder of the Red Lodge Area Community Foundation, the tour also resulted in new philanthropic dollars she’s convinced wouldn’t have been otherwise invested.

New (or Renewed) Models?

It is this belief in the power of developing rural-urban relationships and projects that spurred the creation of the One Montana initiative. A new program that has support from the university system, state legislators and citizens around the state, One Montana seeks to develop strong communities and civil discourse through rural/urban partnerships and projects. The organizers believe that by encouraging our citizens to first bridge our own rural/urban divide, we will in turn, strengthen our opportunities both within the state and from national sources. While One Montana’s focus is not only on philanthropy, the premise speaks to the core of how more philanthropic dollars could be raised.

This rural/urban collaboration and regional approach is also behind a national effort led by the Ford Foundation. The Creating Rural Wealth initiative (www.creatingruralwealth.org), is currently being tested in the eastern part of the country and may have lessons for Montana and other states.

Ford Foundation program officer Wayne Fawbush hopes that this initiative will “change the language of sustainable development” by moving from the old way of philanthropy, which is mainly about transferring monetary wealth from one place to another, to a newer model that looks at how to create a healthy community along seven avenues of “wealth.” He sees a mix of philanthropic, public, private, rural and urban collaboration as the future of sustainable philanthropy.

It’s About Relationships

If people give to what they know, getting urban communities to better know (and work with) their rural counterparts is critical for success if we hope to move the needle on rural philanthropy.

And while policy changes, high profile speeches, and consistent dialogue help to frame the issue and raise awareness, the real change happens when people take the extra step to join forces with those around them. Says Kemmis, “People and organizations can’t afford to operate in isolation of their surroundings.”

Montana is currently facing some big opportunities and challenges – from the oil boom in the east to our aging population to questions of land use – and solutions are only going to be found in coalitions of diverse entities. A proactive approach, in which relationships are built and ready to deploy when opportunities arise, is the direction the state needs to go if Montana hopes to attract more significant dollars from outside funders. Our citizens across all sectors, including philanthropy,

business, education, and healthcare, need to create regional and statewide partnerships that utilize the best assets of all the participants. We need to be willing to reward leadership that makes community vitality and development a priority. It is the grassroots relationships built with funders, communities, non-profits and businesses that can make the true impact.

And impact, of course, is what philanthropy is all about. As Deb Neuman says, “Funders are interested in funding something that works.”

Collaborations and relationship-building takes time and can be difficult. However, it is an effort that can ensure that something does indeed work. As our state grows and population shifts increase, dollars are certainly needed. To ensure sustainability and prosperity, perhaps the investment that will allow for the greatest return is time spent getting to know our neighbors once again.

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Not everyone who contributed to this article was able to be recognized via a quote, but their thoughtful insights permeate this report. Thank you to Katherine Pease of Intermountain West Funders Network, Carol Lewis of Philanthropy Northwest, Mike Halligan of the Washington Foundation, Jo Ann Eder of the O.P and W.E. Edwards Foundation, Kelly Bruggeman of the First Interstate Bancorp Foundation, Michael Schectman and Bill Pratt of the Big Sky Institute for the Advancement of Non-profits, Liz Moore of the Montana Non-profit Association, Daniel Kemmis, Wayne Fawbush of the Ford Foundation, Linda Tracy of the Steele Reese Foundation, Deb Markley of the Rural Policy Research Institute, Dee Davis of the Center for Rural Strategies, Rick Cohen of the Non-profit Quarterly, Greg Cunningham of the Northwest Area Foundation, Deb Neuman of Thrive, Carol Townsend of the Greater Gallatin United Way, Kit Gillem of the MJ Murdock Charitable Trust, Cathy Cooney and Linda Reed of the Montana Community Foundation.

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Community Philanthropy

By Milan Wall

Montana's communities, like many of those in other states in the Great Plains and Mountain West, may think of themselves as places strapped for the financial resources necessary to build and maintain sustainable local capacity for community prosperity. Yet Montana's towns and cities are sitting (almost literally) on a veritable stockpile of financial resources, some of which could be garnered and invested in the kinds of strategies that would insure community success for a long time to come.

According to the Montana Community Foundation, a mind-boggling \$8.8 billion will have transferred from one generation to the next, statewide, between 2006 and 2016. In other words, in the span of one short decade, the amount of money that changes hands among generations exceeds the state's annual general operating budget by more than four times. This so-called inter-generational "transfer of wealth," or TOW, constitutes a resource of such magnitude that if a mere five percent were invested in permanent community endowments, it would earn \$22 million a year that could be granted to support the philanthropic programs and services that make Montana communities such special places to live, work and visit.

Those dollar estimates, generated in 2006, are about to be updated by the Rural Policy Research Institute. In an updated version, they are bound to increase dramatically, even though the country has just experienced the most severe economic turndown since the Great Depression. The reason is simple. The value of land, which keeps increasing at significant rates despite the recession that has taken a toll on the value of built real estate, is the underlying wealth in states such as Montana.

The goal of retaining just five percent of the inter-generational transfer of wealth was suggested by the Nebraska Community Foundation when it began doing transfer of wealth studies some 10 years ago. The five percent figure was derived as much by intuition as anything else. It seemed both reasonable and achievable to convert community leaders into believers in possibilities, at a time when government grant resources (at all levels) looked as if they might be in long-lasting decline.

The strategy of focusing on just five percent has worked. Nine of the 92 community funds partnering with the Nebraska Community Foundation to build endowments have already met or exceeded their original five percent TOW capture goal. The first was in Valley County, Nebraska, where the 10-year transfer of wealth was estimated at \$130 million. The five percent goal established by Valley County leaders was nearly \$6.5 million, and that seemed like a very large number at the time. Yet, it only took five years for the

community's endowment plus confirmed expectancies to exceed that goal!

In Montana, the opportunities are just as great. The 2006 study, for example, estimated the 50-year transfer of wealth in Flathead County at an astounding \$6.92 billion. The 10-year estimate alone was nearly \$.9 billion. If five percent of that was captured for investment where the wealth was made, community endowments valued at \$45 million would result. With a conservative five percent payout, \$2.25 million would be available annually for community betterment. In a county with a relatively young population such as Flathead, the value of the TOW potential continues to grow gradually over the entire 50 years. In a county such as Richland, where the population is aging, the TOW potential may already have peaked, meaning that the total value of the inter-generational wealth transferred from one generation to the next will decline over the 50-year period, creating an urgency for communities to get organized and create or build local endowments to capture a portion of that wealth for charitable investment. Still, the 10-year transfer in Richland County is significant, estimated at \$.07 billion.

How to Get Started

Whether the median age in your community is getting older, staying about the same, or growing younger, now is the time to be proactive about the transfer of wealth.

- If you don't have a local or community endowment with a mission to support community betterment, find out how to establish one. The Montana Community Foundation is a great resource to get the ball rolling.
- Create a local leadership team to assume the responsibility of organizing your local endowment. Set a goal for endowment building over the next 10 years, articulate a case statement to potential donors, educate financial planners on the potential for local giving and learn how to target the most likely contributors. Then take the next step and begin asking your potential donors.

One of the most compelling arguments to potential donors is the long-term payoff to the community if grant-giving is carried out with strategic objectives. Local community granting traditionally has gone to the most visible and tangible projects – painting park benches or providing college scholarships for



high school graduates, for example. While there is nothing wrong with freshly painted park benches or college scholarships, granting might be done with more strategic goals in mind. What if some of the scholarships were awarded to high school grads who said they were committed to returning to their hometown after higher education? Or to an adult, already in business in the community, to further his or her own education to become better at managing or marketing a business?

In David City, Nebraska, the community foundation awarded a scholarship to a high school teacher who was seeking certification in teaching entrepreneurship courses. His beginning course in how to start a business is now one of the school's most popular, and students are demanding a follow-up class to build on what they are learning in the introductory course.

Success has taken place in two other Nebraska communities as well. In O'Neill and Norfolk, a bachelor farmer left a significant portion of his estate to a donor advised fund designed to promote economic growth in these communities. Proceeds from the endowment created by his estate are being used to support a business coach in O'Neill's economic development corporation to work with entrepreneurs who want to transition, grow or start a business. The farmer, Rudy Ellis, was interested in leaving an endowment that would help communities who were already showing their ambition to remain vital. His estate planner helped him with language in his last will and testament to make his dream come true. When his estate was settled, more than \$2 million was endowed to benefit two communities that were important to him.

Estate planners come in a variety of forms. Often they are attorneys who specialize in financial planning for people who are making what may be final estate planning decisions. But they may also be accountants, investment brokers, trust officers, bankers, life insurance agents or even funeral directors. Not all financial advisors, however, may know all of the options that one has in writing an estate plan. Nor are they necessarily up to date on transfer of wealth information or the idea of a client leaving five percent (or some other reasonable portion) of their estate to their community. According to the Montana Community Foundation, "People living in small, rural communities...are discovering that they need to help themselves because no one else will do it for them. There is no better time to give back to the community that helped build your wealth, educate your children and saw you through hard times." That type of message, if conveyed by financial advisors to their clients at the appropriate time, can be powerful enough to convince someone to remember their hometown in their estate plan.

Relying on financial advisors to assist in creating expectancies is not enough, however. That is why it is essential to have a local leadership team leading by example (making their own personal financial pledges before asking others to give) and being directly involved in identifying potential donors, coming up with the case for giving to a local endowment or community fund and then making that case, face

to face, with a potential contributor. "People give to people," says Jeff Yost, President and CEO of the Nebraska Community Foundation, which has devoted much of its mission to helping communities establish local endowments. So if people who know you very well are the ones asking for your donation, it's more likely that you may say "yes." It's the same reason that word-of-mouth is still the most powerful form of advertising. If someone we know recommends a product or service, it means a whole lot more than a mass-produced advertising campaign or a phone call from the anonymous voice of a paid telemarketer.

Finally, communities who are interested in building local endowments and capturing some of the inter-generational transfer of wealth ought to become knowledgeable about the profile of the person most likely to consider a sizable estate gift.

Among the characteristics of this type of donor are the following:

- Older than 60 years of age
- Has lived comfortably yet modestly in the community for his/her entire life
- Owns or owned his/her own business
- Owns real estate
- Is a compulsive saver and investor
- Demonstrates a real passion for their hometown.
- Once this type of profile is established for your community, a local leadership team will be able to identify potential donors who fit the profile.

The time is ripe to learn about the potential represented by transfer of wealth in Montana communities. Every rural community can organize locally to position themselves for philanthropic success, seek help from the professionals at the Montana Community Foundation, get to know the estate planners who are working with friends and neighbors, and articulate and implement a strategy to help potential donors see how they can leave a lasting legacy to sustain community and economic success in their hometown.

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Community Development Philanthropy:

A POLICY STRATEGY FOR TAKING IT TO SCALE



By Don Macke

A perfect storm is building. America's communities are challenged and struggling to find financial resources for community building. Slower economic growth and eroding federal and state funding are combining to limit traditional sources of community building capital. While financial resources are becoming more scarce, the need for community building investment is rising. Growing new generations of leaders, investing in exciting youth engagement strategies, financing economic renewal and entrepreneurship programs, and supporting a whole range of community betterment activities, from fire protection to arts programs, need investment.

While traditional sources of funding are becoming even more constrained, there is a new source of significant funding—the transfer of wealth (TOW). At the very time when communities need significant new resources for community building, local wealth is transferring from one generation to another. The Rural Policy Research Institute, or RUPRI, estimates that the TOW opportunity for America is \$75 trillion (from 2010 to 2060 in 2010 real dollars). In Montana the estimate of wealth transfer over the next 50 years is \$122 billion. The question is, will any of this wealth be left to the communities that helped build it? Saving five percent of this wealth transfer in permanent endowments would generate \$305 million annually (using standard five percent payout rates) in grant funds to support Montana community development.

Let us take a look at what this could mean for Montana's largest and smallest counties:

- Yellowstone County/Billings.** Montana's largest community of Billings and Yellowstone County has an estimated \$9.8 billion in 2010 household current net worth. In the coming decade an estimated \$2.1 billion will transfer inter-generationally. If residents gave just five percent of this amount back to their community's permanent endowments, \$105 million would be invested to generate \$5.3 million annually to support community development and charitable services.
- Treasure County.** Treasure County, encompassing the communities of Terry and Fallon, has an estimated \$33.7 million in 2010 household current net worth. In the coming decade an estimated \$10.3 million will transfer from one generation to the next. If five percent

of this amount was set aside in a permanent endowment, approximately \$510,000 would generate nearly \$30,000 every year to support community grant making.

Imagine what could be possible if Montana and its communities had endowments equaling five percent of the amount transferring from one generation to the next. Those endowments would create millions of new dollars annually to invest in human, community and economic development. It would provide communities with financial resources to create their future by design instead of default.

No other possible source of new community building capital is remotely available today. It is for this reason that there is growing interest by philanthropic and community organizations to find ways to encourage families to leave part of their wealth to their community – the place that helped them build it.

Montana's Transfer of Wealth

The data for Montana has been collected. The opportunity can be calculated. The impact of new investment can be imagined. What we need now are action strategies that will optimize this wealth transfer for the long-term benefit of Montana communities. Residents need to be educated about their role in building the future of their hometowns, and local endowments need to be started and grown, citizens need to come together to plan for strategic community-building grant making.

Place	50 Year TOW (\$ billions)	5% Capture (\$ millions)	5% Payout (\$ millions)
U.S.	\$75,089.08	\$3,754.45	\$187,722.70
Montana	\$122.89	\$6,144.51	\$307.23
Eastern	\$5.86	\$292.99	\$14.65
North Central	\$16.82	\$841.00	\$42.05
South Central	\$28.92	\$1,446.05	\$72.30
Southwestern	\$34.45	\$1,722.40	\$86.12
Western	\$36.84	\$1,842.08	\$92.10

Moving to Action and Impact

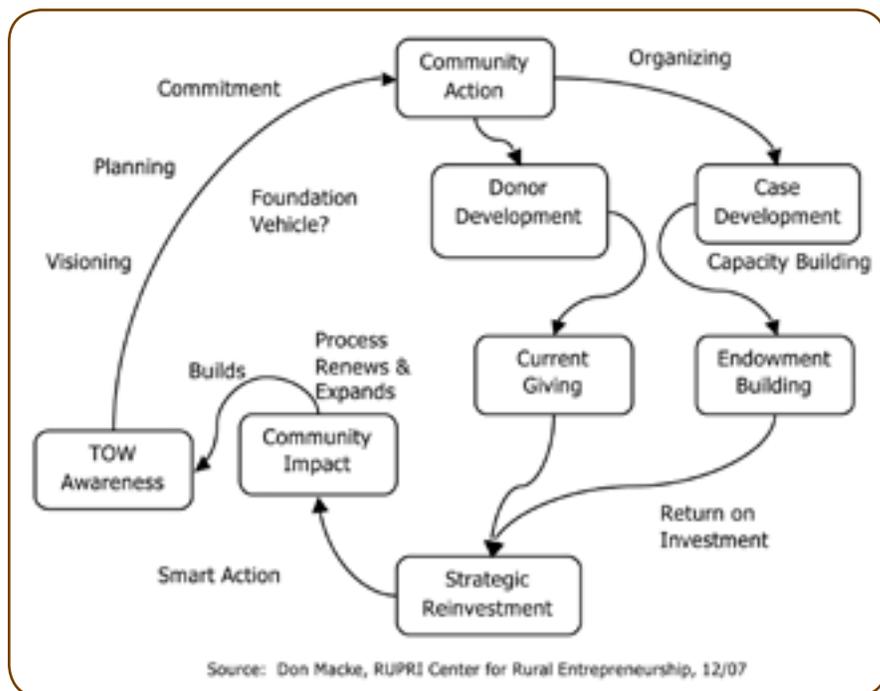
The Center for Rural Entrepreneurship (www.energizingentrepreneurs.org) works throughout North America assisting communities to envision and build sustainable entrepreneur-focused development strategies. As a part of this work, the Center has acquired deep expertise in the area of Community Development Philanthropy. The Center completed both the initial and most recent Transfer of Wealth Studies for Montana and its counties. The Center is part of the Rural Policy Research Institute, or RUPRI, (www.rupri.org) family.

RUPRI has developed a very basic “change model” for the TOW opportunity. It is called the TOW Cycle and is rooted in reality and based on how communities actually move from TOW awareness to impact.

For the past decade, places like South Dakota, Michigan, Indiana and Montana have been using TOW information to talk to people about the appropriateness of leaving part of their estate to community endowments. Despite these efforts they are nowhere close to reaching a tipping point and becoming well-established. Each year, TOW opportunities are slipping away at the very time when communities are often desperate for these resources. The absence of real and locally-controlled community-building capital is denying communities and their residents the very opportunity to ensure future vitality and prosperity.

RUPRI believes a larger initiative is necessary—one that focuses on building community strategies more aggressively in order to tap into their TOW opportunities and completing the TOW cycle that leads to community investment and renewal. Montana could, with a measured investment, leverage a more robust movement that holds the promise of hope and community renewal

A basic “change model” for the TOW opportunity, called the TOW Cycle.



across the Big Sky State. This larger initiative calls for a three-year policy initiative focused on three key building blocks that can leverage a larger movement and initiative around the TOW opportunity.

Three Years/Three Building Blocks

A minimum of a three-year investment is necessary to build sufficient momentum to reach a tipping point in community philanthropy. This work must focus on three key building blocks necessary for leveraging a more robust and sustained initiative and movement. These three building blocks are:

1. Documentation and story capture of those communities across Montana and the Rocky Mountain West that are building financial resources for community investment. From these examples key insights into how communities can move to action and impact can be captured as best practices.
2. Each community is unique and each TOW strategy must fit a community’s realities. However, based on what is learned in Building Block #1, attributes and steps can be mapped that can help all communities move from TOW awareness to community engagement, case development, donor development, endowment growth and strategic, community-building grant making.
3. To reach scale with this project, an education program must be developed. This final building block is a diversified educational program (e.g., web, community study groups, institutes, etc.) that can open doors for all communities seeking to make their TOW opportunity a powerful change agent for community betterment.

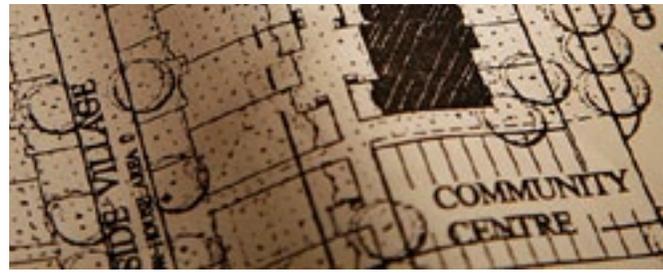
Likely Policy Elements

The primary elements of this Community Development Philanthropy policy initiative include:

1. Creation of a public/private partnership and authorization of a three-year demonstration project with continuous performance evaluation. Assuming sufficient progress, this demonstration project would be expanded to a 10-year scalable initiative.
2. \$1.5 million in initial operating support or \$500,000 per year for three years.
3. Development of a \$50 million challenge grant fund to be used to prompt communities and regions to get serious about legacy community giveback and endowment building. 50 percent or \$25 million should be raised from private sources and 50 percent or \$25 million secured through a one-time surcharge on mineral and energy severance taxes.
4. Development of these legacy endowment funds at the community level should not be viewed as an alternative to traditional state and local tax support. Rather, these funds would be viewed as seed capital for community-building through innovative and demonstrated human, community and economic development initiatives.

5. Government and the public sector must be a partner in this initiative, but a junior partner and the non-governmental sector in Montana must assume leadership and ownership of this initiative.

America is unique when compared to most developed nations with respect to development. In the United States, community economic development is largely the responsibility of local communities and regions. Public and private (regional, state or national) resources support this responsibility. Taking advantage of these resources and programs requires local capacity and initiative, however. Community economic development is grossly under-capitalized in the U.S. and this is particularly the case in rural America. The transfer of wealth opportunity, coupled with smart development, becomes community-development philanthropy and the most promising avenue for scaling up development efforts coming out of the Great Recession.



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Good Policy Leads to Good Outcomes



By Linda Reed

Montana's non-profit sector is big business. From the latest data¹ (2007-2008), nearly 40,000 people work in a Montana non-profit and together they earned \$1.2 billion in wages. That makes the non-profit sector the fourth largest economic sector in the state, after Goods Producing, Trade and Transportation, and Local Government.²

While these employment and wage numbers are important, more significant is the impact non-profit services have on our citizens and communities. In 2008, reporting Montana charitable non-profits expended \$3.315 billion³ to provide services. While government contracts and fees provide a substantial amount of support to Montana non-profits, they can't do their work without the generosity of individual donors.

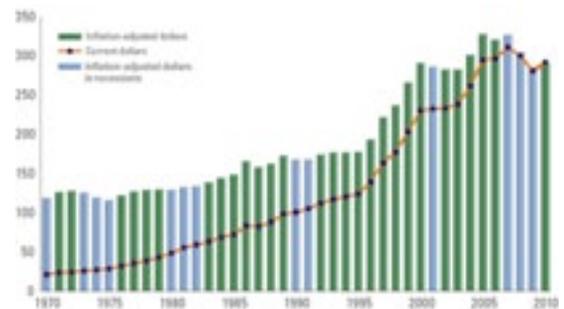
The charitable tax deduction was approved by Congress in 1917 and since then it has been credited for its effectiveness in influencing philanthropic activity. The Giving USA Foundation estimates that in 2010 contributions from individuals will total \$211.77 billion. In 2009 (the latest information), Montana individuals contributed \$1.657 billion.

The nation and American families face bigger challenges now than ever before. The Great Recession left our public budgets in the red, personal net worth severely diminished, and many people jobless and homeless. At a time when demand for charitable services is increasing, it is clear that federal and state funds will be cut. In the absence of government support, non-profits will rely more and more on contributions from individuals. If history serves as an example, we will come together to find solutions and rebuild our financial strength. The non-profit community needs to be part of those solutions.

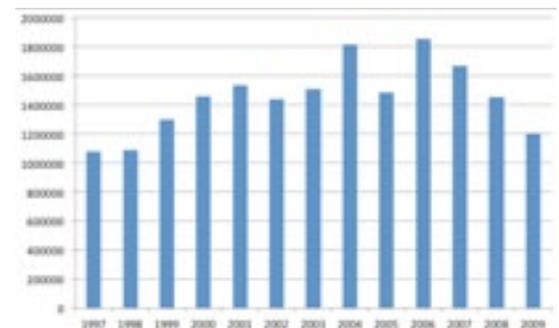
Patrick Rooney, Executive Director of the Center on Philanthropy at Indiana University, has said that "contributing is not a rational act."⁴ By that he meant that donors make contributions for reasons other than eliminating taxes because no contribution offsets taxable income dollar for dollar. We give because we want to, because we recognize our responsibilities to others, and because we know non-profits build better communities. However, we also know that giving is not

driven by altruism alone. Studies⁵ find that taxpayers do think about the bottom-line impact of their giving and respond to changes in the after-tax price of giving.

In addition, economic health noticeably influences giving. The following graph tracks contributions made nationally since 1970 and shows donors' responses to recessions. The seriousness of the Great Recession (2008) and the long recovery have impacted giving more significantly than any other recession since 1970. It is likely that contributions will not return to 2007 levels for some time or at least until Congress deals more predictably with the deficit and tax policy. Montana is following the same trend as the nation following the 2008 recession.



Source: Giving USA Foundation "i Giving USA 2011



Source: Montana Department of Revenue Tax Expenditures Biennial Report – 2009

Nationally, gifts from individuals make up 73 percent of total gifts made to charity. Foundations, corporations and bequests make up the remaining 27 percent. Of individual donors, a much smaller number of high income donors make up a disproportionate amount donated. This can be illustrated with Montana information.

High income donors in Montana represented between three to four percent of the total number of tax filers

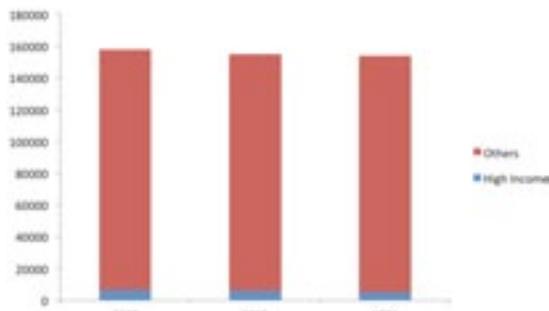
1 Montana Non-profit Association, Montana Non-profit Sector Report – 2010.

2 *Ibid.*

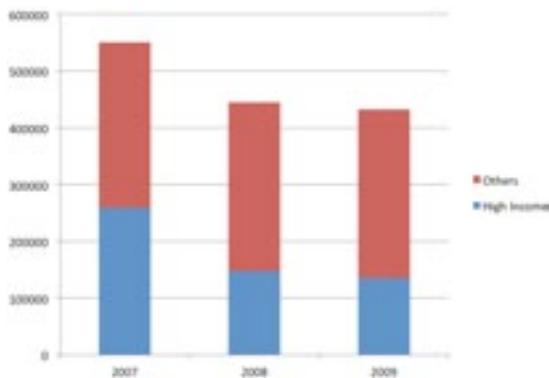
3 *Ibid.*

4 Patrick Rooney, PhD, Executive Director of the Center on Philanthropy at Indiana University commenting at a briefing for Congressional staff held on November 17, 2012 on the topic of the charitable deduction.

5 The Center on Philanthropy at Indiana University, Impact of the Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving" (October, 2011)



Source: Montana Department of Revenue Tax Expenditures Biennial Report – 2009



Source: Montana Department of Revenue Tax Expenditures Biennial Report – 2009

reporting charitable donations. Yet, they contributed 31 to 47 percent of all contributions in 2007, 2008, and 2009. Anything that discourages these donors from giving generously will noticeably impact Montana non-profit revenues.

The economy already has depressed contribution levels. As a way to reduce the federal deficit, tax policy changes are being discussed that may further depress charitable giving beyond the influence of the economy’s health. The President’s past three budget proposals included limiting charitable deductions to 28 percent for high income tax payers (\$200,000 single and \$250,000 joint). Although many pundits speculate that the 2013 budget will not pass Congress in this election year, it is important that the non-profit community follow these changes, understand their ramifications, and weigh-in with elected officials about their consequences.

The three proposals currently in the 2013 budget are:

- Limiting the charitable deduction to 28 percent for taxpayers in the 33 to 35 percent tax brackets.
- Letting the Bush Era tax cuts expire for high-income tax payers. That would increase the marginal tax rate from 35 to 39.6 percent.
- Enacting the “Buffett Rule” requiring taxpayers with Adjusted Gross Income (AGI) over \$1 million to pay income taxes at 30 percent, but not to disadvantage individuals who make large charitable deductions.

Lowering the deduction amount or changing marginal tax rates will impact charitable giving beyond what has happened in response to the recession.

The Center on Philanthropy at the Indiana University⁶ estimated that changes to limit the exemption amount and increase marginal tax rates proposed in the 2012

6 The Center on Philanthropy at Indiana University

budget would reduce charitable giving by \$2.43 billion. The Congressional testimony of C. Eugene Steuerle, PhD., and Richard B. Fischer, chair and Institute Fellow at the Urban Institute⁷, stated that the institution’s estimate of \$1.7 to \$3.2 billion decrease in contributions would result just from the 28 percent deduction limitation. While these amounts are not a large percentage of total contributions, they represent real money lost to non-profits.

It’s important to remember that these changes are directed at high income tax payers. Nationally, 94 percent of high income tax payers report making charitable gifts. This is a high percentage when you consider that 34 percent of tax filers itemize deductions and of those, 80 percent report charitable donations. Twenty seven percent of all tax filers are reporting charitable deductions.⁸

The Montana Non-profit Association and Montana Community Foundation believe our sector needs to play a constructive role in promoting legislation that both protects incentives to make charitable gifts and solves our nation’s budget deficit.

Several ideas have emerged as ways to increase federal revenues and maintain current levels of contributions. The Urban Institute has analyzed impacts on charitable giving and federal revenues from greater compliance with current laws to providing tax credits to donors. These ideas can be found in the testimony of C. Eugene Steuerle of the Urban Institute before the Committee on Finance, United States Senate on October 18, 2011 (www.urban.org/publications/901460.html). The Institute’s analysis reveals that allowing all taxpayers who donate to take an “above the line” deduction, and limiting deductions to amounts over 1.7 percent of income would result in little impact to overall giving and yet generate \$10 billion in increased revenue for the federal government. The point of this example is to illustrate that there are ways to increase federal revenue without a direct reduction in charitable giving.

What does this all mean to Montana non-profits? It means we should be encouraging our lawmakers to carefully think about tax reform – especially how changes could impact charitable giving. Charitable contributions made by high income donors are essential if our non-profits are going to continue providing services in an economic environment where they are increasingly needed.

The Montana Non-profit Association and the Montana Community Foundation are both advocates for national and state policies that encourage charitable and philanthropic activity. Either organization can help you stay abreast of the current issues facing our sector and make recommendations on how you can become involved.

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7 C. Eugene Steuerle, Testimony before the Committee on Finance, United States Senate, Hearing on Tax Reform Options: Incentives for Charitable Giving, 18 October 2011
 8 The Center on Philanthropy at Indiana University



Women Who Wine:

A LOCAL PHILANTHROPY MODEL



By Betsy Webb

After a conversation with Babs Noelle, the founder of the Women Who Wine Bozeman group, it becomes obvious that her involvement in local philanthropy is dear to her heart and a way to give back to the community. Babs' commitment to this small group of women is evident and her enthusiasm is contagious – and it's a simple model.

In Denver, Babs was a member of a different Women Who Wine group. (“The name is the most important part of this group that I brought with me to Bozeman,” says Babs). The Denver group met monthly as a way to network and market women's businesses. When Babs joined the group, she began thinking of ways to harness the power of the women involved, asking, “Why not find a way to do good, along with networking and meeting other women?”

Babs moved to Bozeman in 2004 and started her own Women Who Wine group, this time with a philanthropic aspect to it. Women Who Wine Bozeman is a member-driven organization for women 21 or older. The group meets monthly; each member brings \$10 and a bottle of wine. A monthly host selects both a location to meet and the charity who will receive that month's collected funds. Non-profits are not invited to petition for a fundraiser. A Women Who Wine member does the choosing. A speaker from the selected charity is invited to speak for 10 to 15 minutes. Of the \$10 monthly donation, \$5 goes to the hostess who has provided the snacks and setting, and \$5 goes to the selected non-profit.

To attend a Women Who Wine event you only need a personal invitation from a current member, or to ask for an invitation through the Women Who Wine Bozeman Facebook page. After attending as a guest three times, you can become a member. Membership requires an annual donation of \$100, or a new member can choose to donate 20 hours of service to a local non-profit in lieu of the \$100 payment. When a member renews during a monthly event, \$100 goes to the selected non-profit of that month, unless the member has stipulated a different non-profit to receive the funds. A Women Who Wine member who is part of a local non-profit may host a monthly event, but the event cannot benefit their own non-profit.

Women Who Wine Bozeman currently has 72 members. It is made up of women who want to have a good time together and do good for the community in the process. Members network, find jobs, find employees, and recreational partners. Babs spoke of a clause in which members can be asked to leave if they are consistently negative or perceived as whiners or gossips.

Membership and administration of the group is simple: money in and money out. There is no advertising and there are no administrative costs. At this point in time, Women Who Wine Bozeman is applying for 501(c)(3) status. They have by-laws, a board, a hostess administrator, and an official greeter. Babs takes care of the accounting of funds. None of these are paid positions. Babs is committed to setting up the local Women Who Wine infrastructure so that it is replicable in other communities.

As Babs talks about the impact this small collection of women has made, she is reminded by another member that as a group, they donated somewhere between \$10,000–\$12,000 to local non-profits in 2011. Babs tells me that at least twice a year the speaker is a tear-jerker. The stories of the impacts of the non-profits are touching and powerful. Babs relates that there are often “Aha” moments when listening to a speaker. “Many of us think we know about a non-profit and what it does, but often after a speaker shares details about their operations, we are much better informed about their outcomes,” she explains. Babs recalls learning more about Habitat for Humanity and the recipient family's role in donating time and labor to their own house and to other houses, along with mortgage information.

Finally, every month, the women join in a circle. They introduce themselves and their work, and then share a need or a want. This networking brings the group of women closer and provides another “good” in their communities.

Babs Noelle is the owner of Alara Jewelry on Main Street in Bozeman. You can find Women Who Wine Bozeman on Facebook. Babs is happy to assist others by sharing what she has learned for the formation of new Women Who Wine groups in other Montana communities. Women Who Wine Bozeman can be reached on their Facebook page at www.facebook.com/#!/groups/www.bzn/ or by emailing www.bzn@gmail.com.

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