

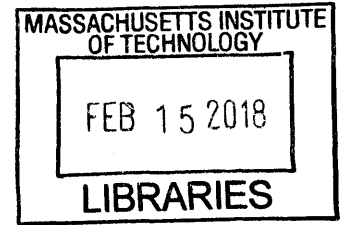
Nontraditional Roles for Philanthropic Capital in Urban Redevelopment

by

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ARCHIVES

Submitted to the Department of Urban Studies and Planning  
in partial fulfillment of the requirements for the degree of

Master in City Planning

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

February 2018

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## ABSTRACT

Across the United States, neighborhoods of persistent urban disinvestment continue to elude revitalization. Despite efforts from private, public, and social sector leaders, these areas continue to produce unacceptable health, safety, education, economic, and wellbeing outcomes for their residents. Philanthropy has long been a stakeholder in urban revitalization efforts, yet is often understood and described only as a source of grant capital. However, understanding some of the roles of philanthropic capital beyond grants, specifically philanthropic investments, knowledge creation, leadership, and operations, may reveal powerful, unexpected roles for philanthropy. While urban revitalization can occur without philanthropic involvement, these various tools and approaches should be considered, either individually or jointly, in planning for and implementing revitalizations efforts in neighborhoods across America.

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## ACKNOWLEDGEMENTS

First of all, thank you to the organizers, activists, planners, and neighbors working for hope, equity, and justice in American cities. While this thesis focuses on philanthropy, the impact comes from you all.

Thank you to all my interviewees who shared their insights and experience with me and shaped this work.

Thank you to Karl Seidman for serving as my advisor, particularly on such short notice and from afar. Your insights and advice were invaluable, and without your clear guidance and process, I might still be writing.

Thank you to Ari Simon for being a thoughtful and thorough reader. Even more so, thank you for giving me the opportunity to observe the work of Kresge from the inside and mentoring me as I developed my understanding of philanthropy in cities both academically and professionally.

Thank you to Carl and Stacy Rush for moving to Boston and then Detroit to make school /residency/thesis work. What would we do without you?

Thank you to Rush and William for understanding when Daddy had to “go to work” even when it was a “stay at home day.”

And Thank You especially to Morgan, my love. Thank you for putting your career on hold while I pursued my Masters. Thank you for sticking with me through this journey and encouraging me even when I was ready to give up. You have heard me talk about writing this thesis for almost a half-decade. Now it's done!



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## Introduction

Across the United States, blocks, streets, and entire neighborhoods persist in seemingly irresolvable states of disinvestment. Even as new shopping centers spring up in suburban areas and modern sky scrapers change the profile of center cities, economic activity and development continue to elude these challenging areas of America's urban fabric. Consequently, these areas continue to deteriorate, with grave implications for their own residents and, in many cases, the inhabitants and businesses in surrounding areas.

The histories of these places and their challenges are complex and multifaceted. Indeed, each neighborhood has its own unique struggles, context, and most importantly its own unique people. However, the patterns repeat themselves across the nation: industrial shifts, the impacts of the automobile and suburbanization, mid-20<sup>th</sup> century urban renewal, exclusionary zoning, and other economic and policy trends that led to development occurring in the suburbs even as urban neighborhoods declined (Duany, Plater-Zyberk, & Speck, 2010). Despite being a nation of incredible wealth and innovation, with some of the greatest cities in the world, the United States of America continues to have areas, and people, which progress has left behind.

The continuation of difficulties in these areas is rarely the result of unawareness or apathy. In fact, these areas and their dire conditions are quite well known and feature prominently in discourses about "inner city," "slums," and "ghettos" (Hall, 2014; Werna, 2009) (Detter & Folster, 2017). These are the areas that tourists are told to stay away from and that outsiders fear and avoid. However, they are also the very areas that politicians, activists, organizers, and philanthropists often focus their attention on as they seek to bring about change (Martinez-Cosio & Bussell, 2013).

“Urban Revitalization” is the broad term given to efforts related to bringing new population and/or economic activity to these challenged places. These are, most often, areas that used to be vibrant neighborhoods with families, businesses, and institutions. Furthermore, since they are within metropolitan areas that have other strong neighborhoods and communities, perhaps only streets or blocks away, part of the goal is to redirect more benefits that are accruing elsewhere to these places that have for so long experienced disinvestment. If there are surrounding neighborhoods that are thriving, and especially if there is investment in greenfield, suburban developments, then there is a clear end state and set of resources for these places.

As communities seek out solutions and strategies for urban redevelopment, they often need to look to partnerships and input from across sectors – public, private, and social. There is also a fourth sector which can play a powerful role but is not always featured as prominently and is certainly less well studied and understood: the independent “fourth sector” – philanthropy (Martinez-Cosio & Bussell, 2013; Fleishman, 2007).

Created through private sector wealth, enabled through public sector laws and policies, and meant to serve social purposes, Philanthropy is intractably linked with the other sectors. And yet it is also wholly independent, subject only to a few tax laws and the leadership of their independent boards. Philanthropy has long been a powerful agent in redevelopment strategies. Even in the beginning, many foundations fund (and still do build) the creation and maintenance of anchor institutions, which serve the local community, bring energy and activity, and support future growth. Strategies and approaches have evolved and have been met with mixed success, leading to new trials and evaluations (Martinez-Cosio & Bussell, 2013).

This paper examines this role philanthropy has and can play in urban redevelopment.

Specifically, the author set out to explore the following questions:

- How have philanthropies traditionally been involved with urban revitalization?
- What are the uses, strengths, and limitations of different philanthropic tools in urban revitalization?
- What are promising innovations in the realm of urban revitalization philanthropy?
- How can urban revitalization stakeholders more effectively engage philanthropy?

In order to answer these questions, the author conducted interviews with staff members of national philanthropies and urban revitalization partners, participated in seminars regarding the role of philanthropies in urban revitalization, and reviewed written case studies of urban revitalization with significant philanthropic involvement. This methodology allowed for nuanced descriptions of philanthropy and its role and provided some insight into the unique power dynamic between philanthropies and their partners. However, it is also admittedly limited in two major ways. First, it is highly subjective. While some case studies have quantitative data to demonstrate impact (e.g., jobs created, families affected, dollars invested), the nature of “urban revitalization” makes it challenging to assess in purely quantitative terms. Furthermore, relying on personal accounts – either through interviews or through written case studies – inevitably makes the analysis highly qualitative. Even when an interviewee attempts to be objective in their description and assessment, he or she inevitably presents with a personal perspective and (perhaps subconscious) agenda. Secondly, the sample set of interviewees/case studies is woefully limited relative to the scope of this work. While the interviewees do represent national-level philanthropists and urban revitalization practitioners, they cannot be expected to speak for the entirety of urban revitalization philanthropy in the United States of America. However, their experience and expertise should be valued and while they may not have universal knowledge, the recurring themes are well worth noting.

Based on the outcome of these discussions, the author has laid out the findings in the following frame. The first part of this thesis provides important context for the role of philanthropies. First, there is a discussion of urban revitalization including a very concise overview of urban American history and the challenges facing disinvested neighborhoods. This is then followed by an overview of American philanthropy, with a focus on urban philanthropy. The chapter following these contextual sections presents an organizational framework for the various uses of philanthropic capital, followed by chapters focusing on grants, investments, knowledge creation, leadership, and operations. Each chapter describes the philanthropic capital use, considers when a particular capital approach may or may not be appropriate, how the particular capital use relates to other philanthropic roles, and at least one case study is presented to show how the particular use of philanthropic capital has been used in American cities. The thesis concludes with the description of an ongoing urban revitalization effort in Detroit, Michigan, and a synthesis of how the philanthropic capital tools thereto described have and could be used to augment the work of local stakeholders in the area.

By evaluating the different tools available to philanthropy and presenting case studies and examples in which such tools contributed to urban renewal, this work can guide future philanthropists as well as those who might partner with philanthropy, additional ideas and supporting facts to encourage a shift in their own practices towards new methods of urban renewal.



## The Need for Urban Revitalization

### Context of divested neighborhoods

Throughout history, there has always been variation in the quality of different urban neighborhoods, whether it be according to safety, housing quality, school quality, access to jobs, level of services, or any combination of factors (Hall, 2014). However, the notion of *re-*vitalization emerged in the 20<sup>th</sup> century. Prior to that, there had certainly been notions of improving neighborhoods, but the notion of returning population and economic activity to a once thriving area is relatively recent. This is due to the profound changes in American cities which occurred in the early to mid-20<sup>th</sup> century and profoundly changed the economic and social lives of urban neighborhoods, too often to their detriment.

Already by WWII, industrial practices had begun to shift the urban landscape. The industrial revolution had freed factories from rivers, so businesses and industries could develop according to economic and demographic forces, not just natural geography. Industry therefore caused cities to grow as new workers came from other nations, rural areas, and established cities to new jobs with cheaper land and seemingly unlimited opportunity. As the populations of these cities grew, concerns arose about congestion and density in cities, planting the seeds for long lasting motivations for American cities to sprawl out into low density, bucolic, (theoretically) uncongested suburbs (Hall, 2014). This pouring out of urban residents was then accelerated by improvements in transportation technology, particularly the mass production of the automobile. No longer dependent on the tracks of a train or trolley or the capacity of a horse, Americans had access to a significantly larger amount of land with a preservation of their commute times and access to services (Duany, Plater-Zyberk, & Speck, 2010).

After WWII, these trends intensified. The construction of the federal highway system dramatically enhanced mobility in and out of urban areas. Furthermore, the GI Bill provided veterans with funds to purchase and build new homes, which real estate developers capitalized on by building new housing developments in the newly accessible suburbs (Duany, Plater-Zyberk, & Speck, 2010). With even more freedom of movement, and financial incentives for moving to greener pastures, millions of Americans left established, urban neighborhoods for new suburban space and lifestyles.

More nefarious factors were at play as well. Suburbs not only benefited from the pull of their financial and spatial benefits, but also the push of changing demographics in cities. The waves of immigrants in the years before WWII and the trains of black migrants arriving in cities, was not only making the cities more congested, they were shifting the racial, ethnic, and even religious dynamics in the city. Tensions rose, and those who could, left for the suburbs (Hall, 2014). Such tensions were not infrequently caused by urban renewal efforts aimed at alleviating urban pressures. Slum clearance and other misguided, draconian approaches to urban planning (e.g., freeway expansion, creation of high rise public housing projects) often leveled minority neighborhoods and business areas. This not only destroyed accumulated wealth among minorities, particularly African Americans, but it also forced these migrants to move to new areas, often within the city, and also bring them in closer, more contentious contact with the established majority. (Hall, 2014)

For a while, despite the population shifts to the suburbs, the city remained the economic hub. The wealthy could afford moving to new, more desirable areas and commuting back to the city. The poor, and the disenfranchised, remained in the city where, for a time, rents were low (given the shift of market demand to the suburbs) and transportation costs were also relatively low due

to remaining public transportation systems and the legacy of dense retail and employment centers. However, when businesses began following the employees and suburban headquarters, office parks, and shopping centers began shifting jobs away from the urban core (also at the same time new waves of automation were wholesale eliminating many jobs in urban industrial areas adjacent to the core), those who remained in the city were left in a dire situation (Duany, Plater-Zyberk, & Speck, 2010). While housing costs may have remained low, the economic shift to the suburb and the resulting increase in commuting costs for urban inhabitants became a major barrier to engaging in the growing economy (Martinez-Cosio & Bussell, 2013).

As people left, similar downward spirals began in these neighborhoods across the country. The departure of homeowners, without new people moving in, or with new, but different people moving in had a social effect of encouraging even more of the original neighbors to leave. When there are no new residents, or the new residents are poorer than the earlier ones, the existing businesses close, unable to sustain profitable enterprises in the new market, but also moving to be closer to their established customer base, as well as their employees and owners. Even when new businesses replace those that depart, there are always vacancies that emerge due to the decrease in purchase power within the area. This vacancy compounded with the vacancy caused by homeowners abandoning properties that were under water or unsavvy or unscrupulous landlords being unable to find tenants or being unwilling to update and maintain properties (Duany, Plater-Zyberk, & Speck, 2010; Orfield, 2017).

At this point, much of its building stock is poorly kept, posing fire and other safety hazards as well as providing havens for crime. With so much of the community gone, businesses designed for neighborhood retail can no longer function with such a limited market area. This is exacerbated by the fact that since residents cannot meet all of their needs locally, they will likely

shop elsewhere and due to convenience get everything at a shopping center even if some of the items could have been procured at a local establishment. Furthermore, as retail leaves, the homes become even less attractive and more families leave (Coletta, 2017).

At this point, businesses struggle to stay afloat and/or they prey on the challenges in the local community. Much of the physical infrastructure is gone – having been abandoned and then often further damaged by vandalism and neglect. City services are in many instances lessened for, at best, concerns about services spent on various neighborhoods based on population, or at worst, racial and class targeting. The residents of this place struggle at varying levels to conveniently meet their needs. For some this neighborhood is the only option for financial reasons. For some, it's the only conceivable option because of the local supports and community that they have. For some, it's home and there is a determination to be loyal and push for better things. And for some privileged, it's a choice of a new home for opportunistic visions of the future and urban redevelopment.

Whoever it is that lives in this area, it is a challenging place to live a long and prosperous life. Furthermore, since these neighborhoods and the people who inhabit them have often been neglected or worse for decades, their access to power, capital, and other tools to bring about change are severely limited. As such, conditions often stagnate in a bad state, posing many challenges which further detract from the neighborhood and cause notions of revitalization to remain risky and unrealistic (Coletta, 2017).

## Current challenges in divested neighborhoods

The challenges facing those neighborhoods which have become disinvested are plenty. Without an influx of capital for the creation of new buildings and infrastructure, or even the maintenance of the built environment, atrophy becomes a powerful force. Roads crumble, buildings collapse, sewer systems go un updated. Blight due to vacancy spreads in such a neighborhood, where new tenants are rare and vacancies beget more vacancies.

These areas often also suffer from a lack of services. In some instances, the poor quality of services is linked to the physical deterioration of the neighborhood. Poor roadways will slow down emergency response vehicles. Outdated water infrastructure may lead to poor quality sewer and fresh water services. And legacy electrical systems may preclude these areas from attracting infrastructure to better connect with the Internet. Other services are due to a confluence of factors. With low property values and few businesses, these areas often produce little tax revenue for the municipality. Coupled with the fact that residents in these areas often lack political power, city leadership historically has directed services towards those neighborhoods that are “paying for” them. This leads to fewer resources being diverted to public safety infrastructure in these neighborhoods as well as fewer resources for schools. This lack of service, in turn, makes the areas even less attractive, and therefore less tax-generating, continuing the vicious cycle outlined above (Hall, 2014; Martinez-Cosio & Bussell, 2013).

Ironically, the cost of living in these areas, despite the low values, can be quite high (Werna, 2009). With businesses gone, residents often must travel relatively far distances for employment, recreation, medical care, and more. When public transit is not available, this translates into the need for a private vehicle as well as increased expenditures on gas. Furthermore, those businesses that do exist within the area are likely to charge a premium in order to be profitable in

a low wealth/low volume market. This means that even when there are opportunities to shop locally, groceries cost more, clothes cost more, banking services cost more. So again a vicious circle presents itself and makes it challenging for these areas to develop wealth and attract and retain residents (Orfield, 2017).

Further exacerbating the matter, health and social outcomes in these neighborhoods is often below average. With buildings falling apart, services being sparse, and with limited access to medical services and healthy food, these neighborhoods may pose considerable health risks to their inhabitants. This only considers the physical aspects of health – it is hard to imagine the toll on mental health that occurs in such areas (Orfield, 2017).

Despite all of the challenges, these continue to be places that urban residents call home. Whether it is, as noted above, a function of choice or lack of choices, residents often have deep ties to a place and hope to see the neighborhoods change for the better. Other stakeholders want to see the neighborhoods improve as well. Whether it is the city trying to better serve its residents, a business trying to expand its market, or philanthropy seeking to further its mission, there are many parties who would like to see reinvestment come to these places and lives improve for the local inhabitants.



## Challenges to reinvestment

Given the very real, very painful challenges these neighborhoods face, there is broad agreement that conditions in these places must change. And yet, despite the very real desires to bring about change, the ability to produce solutions is limited (Martinez-Cosio & Bussell, 2013). In particular, once a community has become disinvested, the ability to re-attract private capital becomes severely limited.

While weak market conditions make land and property cheap, rents are also low and consequently it is unprofitable to develop or redevelop properties in these areas based purely on the status quo market conditions. Making this worse, financing can be truly challenging in these areas. The risk associated with the investment, given the weak market conditions and perceptions about the market cause lenders to provide capital at higher costs, if at all, which further erodes the financial stability of developments (Evans, 2017).

Another issue is crime. Real crime certainly poses an issue as redevelopments may struggle with vandalism and theft and possible tenants may be frightened away by risks of property or physical damage. Even when the threat of crime is not high, the general reputation of an area may cause market conditions to remain depressed even if they do not match reality, simply because people are scared about what an area used to be like or have biases based on the people who live in the area, regardless of actual facts pertaining to crime and safety (Hall, 2014).

When successes do occur, a different problem arises. Across the country, when disinvested areas have managed to become the sites of new investments and new businesses, these have the ultimate effect of displacing the original inhabitants and bringing in new residents and services that have little to do with the original community. This gentrification and displacement poses a major risk to equitable development, and may even create another barrier. As residents in a

disinvested neighborhood see the inhabitants of similar neighborhoods in the same city or across the country be pushed out due to rising rents and property taxes, they may begin to push for policies from the state or organize to protest redevelopment efforts. Here, there is a very real concern, borne out by evidence, that while the “neighborhood” may improve – it will do so with a new set of “neighborhoods” and the original inhabitants will be forgotten and/or excluded from the progress (Martinez-Cosio & Bussell, 2013).

Another thing to consider is that the scale of challenges in these disinvested areas requires a coordinated, large scale strategy. A single new business will not make a difference, nor will a new housing development. By themselves, new investments will fall victim to all of the aforementioned challenges. Businesses will not be able to have enough customers and developments won’t have enough high-paying residents to sustain them. For example, a number of new housing developments along a not-yet-complete light rail extension in Charlotte, North Carolina, which was intended to revitalize a largely industrial corridor in the city, have already gone bankrupt due to a lack of amenities to attract residents (Murscott, 2017).



## Philanthropy in American Cities

### Origins of philanthropy in America

The concept of philanthropy, broadly speaking, has ancient roots. Early religious texts across faith traditions call on believers with resources to provide for those in need (Fleishman, 2007). In the United States, it was the Judeo-Christian set of values that formed the groundwork for philanthropy. These values had given rise to the Elizabethan Poor Law of 1601 which shaped the charity-related policies in Britain and her colonies and also shaped the culture around giving specifically in the colonies (Martinez-Cosio & Bussell, 2013). During the American colonial period and for much of the nation's history through the Civil War, community-based philanthropic activities were very often undertaken with explicit appeals to the teachings of the Bible. Whether the activity was specifically led by the church, done by the public sector, or undertaken as a collaborative, cross-sector activity, religious beliefs were often touted as the primary motivation (Martinez-Cosio & Bussell, 2013; Fleishman, 2007).

By the end of the 19<sup>th</sup> century, a more secular form of this philanthropy emerged. This was in part due to the increasing role of the government, rather than the church, in providing public services. The scale of issues facing the nation in the aftermath of the Civil War was too great for any community to solve alone and thus the state and national governments had increased their involvement to care for veterans of the war as well as the thousands of newly freed slaves (Martinez-Cosio & Bussell, 2013). Additionally, this more secular form of philanthropy arose due to the accumulation of wealth that began to occur in the late 19<sup>th</sup> century and the reliance on charity from middle and upper-class Americans to fill gaps in what the state could provide (Fleishman, 2007; Martinez-Cosio & Bussell, 2013). With more wealth than they could spend on themselves, these powerful men sought to use their riches for more than just the enrichment of

their own lives and the lives of their families. Motivated by numerous factors, which will be discussed below, these individuals sought to leave a lasting legacy for the betterment of society and became the first “Philanthropists” (Fleishman, 2007).

As noted, the motivations behind these choices varied, and there also is possible dissonance between the stated motivations and the underlying rationale for philanthropic actions. Perhaps the most common rationale is the one embodied in the very name “philanthropy.” Coming from the Greek  $\phi\iota\lambda\omicron\sigma$  meaning “love,” and  $\alpha\nu\theta\rho\omega\omicron\iota$  meaning “men/mankind,” philanthropy literally means love for mankind. Fittingly, many philanthropists explained their decision to give away their wealth by expressing a desire to see mankind flourish and improve and a hope that this generosity could improve the lives of others. Another common rationale, sometimes explicit, but often suspected, is a desire to “live on” after death through charitable giving. Knowing that “you can’t take it with you” – philanthropists endowed foundations and used their capital to build structures bearing their names in order to preserve their name and impact after death. Even if they were gone, their influence would live on and their family name would endure (Fleishman, 2007).

Other possible motivations, albeit ones often rebuffed by the philanthropists themselves have more selfish features. One motivation could be tax avoidance – particularly for later philanthropists, charitable and philanthropic activities created huge tax benefits by being deductible. Consequently, by giving away money, a philanthropist could avoid paying high marginal tax rates. Not only does this reduce a philanthropist’s tax rate, it also allows the philanthropist to be in greater control of their capital, without it going to government coffers which the philanthropist could not steer. Another motivation was that of atonement or redemption-seeking. Particularly for those philanthropists whose public images were colored by

stories of brutality, ruthlessness, selfishness, and just plain meanness, philanthropic giving seems to be a way to prove to society (and perhaps to one's self) that he "isn't so bad after all" (Fleishman, 2007).

Whatever the motivation, the result is the same – wealthy individuals and families gave away vast sums of money and began changing the shape of society in new ways than private sector, public sector, or religious sector agents had done before. As the level of wealth being given away increased and the complexities of philanthropic goals grew, there emerged a need for more formalized practice. Particularly because industrialists were keen on strategies and measurable results, people needed to be hired to steward the philanthropic resources and guide them to where they could best achieve the goals of the philanthropist. This was initially an individual or two who was tasked with managing the charitable aspects of an individual's fortune, but over the course of the 20<sup>th</sup> century developed into a full philanthropic industry which today, in 2017 employs over 150,000 people (Fleishman, 2007; Foundation Data, 2017).

As the sector grew, with large sums of money moving hands without being taxed or regulated, eventually the government did step in. Believing that philanthropy did have a role to play, but that it should not be completely without responsibilities or regulations, the US government formalized philanthropic organizations and activities, mainly through the tax code. These tax laws allowed for donations to philanthropic foundations and non-profit organizations to be tax exempt. Furthermore, they allowed these exchanges to be tax deductible, so not only was the transaction untaxed, but the entity providing the capital could write off such capital pre-tax and lower their payments. (Fleishman, 2007; Foundation Basics, 2017)

In the 1960s, the dynamic changed a bit more. At this time, philanthropy and the public sector entered into a more contentious relationship. Whereas philanthropy had previously been a

helpful ally to the public sector – providing capital and services that otherwise might have come from the federal treasury, and all aiming towards the same general end goals – now the federal government saw unregulated philanthropy as a threat. Consequently, the majority of the rules and regulations governing philanthropy today were established in the Tax Reform Act of 1969 (Fleishman, 2007; Trover, 2000). Notably that any philanthropic organization must give away at least 5% of its assets each year and may not contribute to any lobbying or policy advocacy work. While foundations and their staff certainly do have their own ideological and political views and leanings, by definition, they must all be neutral and any obvious partisan activity can bring about legal repercussions.

## Role of philanthropy today

As described above, philanthropy today is a major, multibillion dollar industry. Employing over 150,000 people in America alone, and controlling over \$865 trillion in collective assets, (Foundation Data, 2017) philanthropies wield incredible power despite almost always being “behind the scenes,” known to the public usually by their sponsorship of media such as NPR and Sesame Street (Fleishman, 2007). Despite the large size of the industry, there is considerable variation within it. Philanthropic foundations come in a range of sizes, from small family foundations which may not even have a full-time staff, to community foundations, to large multinational foundations which may employ thousands of individuals across the globe (Foundation Basics, 2017; Fleishman, 2007). Furthermore, they come with a range of focus areas. Some may focus on very specific issues such as developing treatments for a specific type of cancer. Others may serve a specific population such as children or a specific religious group. Still others may focus on improving a specific geography (often a city or region) across issues and populations. And others may not necessarily have a strategy but capriciously give away capital according to the will of the staff and trustees.

All of this is enabled, at least in the United States, by tax laws and regulations. The rationale for such laws is that foundations and nonprofits serve the common good, much in the same way that government is meant to. Consequently, society “pays” for philanthropy in the form of foregone tax revenue from the donors to the philanthropy and the philanthropic activity itself. This is a contentious issue, but the justification is worth noting. Philanthropy is assumed to serve the common good, and is therefore allowed to do so by tax law protecting its resources and extremely limited government oversight put onto it. (Fleishman, 2007; Martinez-Cosio & Bussell, 2013)

## How philanthropies work

What philanthropy actually does with the freedom afforded to it by the US Government and how effectively the philanthropy does this is a function of three groups of people – the founder, the trustees, and the staff. The founder establishes the mission for the philanthropy and may establish initial guidelines for how it operates, the trustees steward the philanthropy and ensure that its resources are effectively carrying out the founder’s mission, and the staff does the work to carry out the mission on a day to day basis. Importantly, not all foundations have all of these groups. A founder may pass away. An active founder may serve as the sole trustee – at least for a time. And some foundations are so small that they do not have any staff – the Trustees carry out the work themselves (Fleishman, 2007).

However, within this structure, mission is set by the founder, guarded by the trustees, and carried out by the staff. This does not mean that mission is a static thing. To be sure, if a founder wants to highly circumscribe how resources can be used, he or she certainly can do this. A funder can even establish a life span for the foundation, as many more recent founders have done – to ensure that the foundation is focused more on impact and mission than on self-preservation and self-sustaining.

More often, however, the founder sets a general mission and guiding principles. Then the trustees, with input from staff, adjust the Foundation strategy according to societal changes and needs. Such changes almost always take time and are not carried out haphazardly. However, the trustees often do have the flexibility to change a foundation’s strategy to meet the intent of the founder, especially if society has changed so much that the original intention of the foundation is no longer relevant in the modern era (Rapson, 2017).



## Philanthropic approaches to urban revitalization and community development

The philanthropies mentioned above are but some of the philanthropic entities involved in urban redevelopment work. Here it is important to provide some context to the work of foundations in urban redevelopment and how it has evolved over the last century.

As described above, philanthropy has been a part of American society since colonial times.

However, for much of the early history, philanthropy focused on individuals significantly more than on communities or cities. However, in the Progressive Era, and particularly with the settlement house movement, local family foundations began to take a more holistic approach.

The settlement house movement marked the “first significant attempt to coordinate holistic community improvement” (Martinez-Cosio & Bussell, 2013). Settlement houses were founded in urban neighborhoods, particularly those with a large (almost exclusively white) immigrant population, with a goal of establishing relationships and communication between the established “well-to-do” and the working class so that the “well-to-do” could be more sympathetic and empathetic and so that the “working class” could be equipped with skills and resources to thrive in American cities (Scales & Kelly, 2011). Settlement houses were literal houses to immigrants and the working poor and also provided services to their residents and members of the community. In contrast to earlier efforts, driven by Charitable Organization Societies (COS) which saw poverty as caused by individual moral failings and therefore remediable through moral correction and focus on the individual, settlement houses aimed to serve their residents not only directly, but also by addressing issues in the surrounding urban environment and society (Martinez-Cosio & Bussell, 2013; Scales & Kelly, 2011). For instance, settlement house workers were involved with housing reform, public health improvements, and more because they knew

their inhabitants could not ultimately thrive if their neighborhoods were not supportive environments.

Private philanthropy was a main source of the finances required to allow the settlement house movement to continue and expand its operations. Both wealthy individual philanthropists and family foundations supported settlement houses from a dual desire to change the behavior of the poor and to address the housing crisis of the late 19<sup>th</sup> century (Martinez-Cosio & Bussell, 2013).

While there were exceptions, it should be noted that these efforts were almost exclusive to northern cities and neighborhoods populated by white immigrants. While there was an acknowledgement of the challenges of black Americans, the settlement house movement segregated black migrants from white immigrants and often found it challenging to secure philanthropic support for programs for black residents and communities (Martinez-Cosio & Bussell, 2013). Despite these racial disparities, and the class and gender complexities that were often present in philanthropy of the Progressive era, the settlement house movement did mark a shift towards community focus rather than individual focus for urban philanthropic activities. With societal needs and challenges, in urban areas and otherwise, becoming increasingly visible and stark and also the rise of extremely wealthy industrialists, a new era of formalized philanthropy and foundations began.

In the early 20<sup>th</sup> century, as industrialists formed new, formalized philanthropy, urban revitalization was not often a primary focus, although some foundations, notably the Sage Foundation and the Twentieth Century Fund did focus on policy issues with an acknowledgement that urban poverty had a spatial component to it (Martinez-Cosio & Bussell, 2013). In the post-WWII period, driven by many of the social changes described above regarding population shifts to the suburbs and deepening segregation in American cities, foundations began



to shift their focus towards being more socially and politically relevant with a specific focus on urban issues (in part what led to the intensification of regulation on philanthropy in the 1960s) (Martinez-Cosio & Bussell, 2013).

This work accelerated in the late 1960s as the Johnson administration shifted the responsibility of urban revitalization clearly to state leaders through their Model Cities program. In this climate, there was increased opportunity for philanthropic involvement and leadership. The Ford Foundation was a major force in this movement and in the 1960s launched its “Gray Areas” program to provide thought leadership and capital to a cohort of cities around the United States who were focused on improving the quality of life for their urban residents (Martinez-Cosio & Bussell, 2013). This effort was launched by the Ford Foundation in response to a realization that services for urban poor were often fragmented and led by professionals and elite community members who often lacked realistic understandings of what the community faced. Therefore, Gray Areas dedicated \$26.5M to develop “community action agencies” in Boston, Oakland, New Haven, Philadelphia, and Washington D.C., with an emphasis on community engagement and empowering communities to seek their own solutions (Martinez-Cosio & Bussell, 2013). As a critical learning experience, the goal from Ford was not only to improve the communities in which they were working, but also to share learnings across cities and with the federal government, though most of that focused on the “success” case of New Haven rather than challenges felt elsewhere (Kohler, 2007). In fact, Gray Areas was a powerful influence and model for the US Model Cities program and Johnson’s War of Poverty more generally, though budgetary concerns and organizational changes quickly shifted those federal programs away from the Gray Areas model (Martinez-Cosio & Bussell, 2013; Kohler, 2007). While current urban conditions demonstrate that Gray Areas did not provide a “silver bullet” or clear solution

to urban poverty, in many ways, the Ford Foundation's explicit focus on urban revitalization in the 1960s marked the beginning of the current era of philanthropy in cities. Prior to the program, philanthropic activities rarely ventured into "inner city ghettos" and often did not confront the racial and economic realities of 1950s and 1960s urban America (Kohler, 2007). Gray Areas had many hallmarks of modern urban revitalization efforts including a mix of approaches (tools and resources), the desire to test work in multiple areas, and a desire to not just drive local impact but learn lessons which could shape future work and influence state and national policy (Martinez-Cosio & Bussell, 2013). Furthermore, it was during this time that Ford and others realized the need to better link on-the-ground needs to national funding sources and developed the Local Initiative Support Corporation- LISC to help local community development organizations access funding and promote urban low income community revitalization in neighborhoods that would not be able to approach national foundations directly (Van Meter, 2017).

Since the 1970s, and particularly in the 1980s and 1990s, there has been a significant increase in the number of foundations engaged with urban redevelopment. A few factors have contributed to this. First, an increase in conservative policies at the federal level have reduced national funding for urban revitalization efforts, putting onus on local communities (and local foundations) to provide the leadership and capital to address urban issues (Martinez-Cosio & Bussell, 2013). Additionally, increased segregation and divestment in the aftermath of the 1960s civil rights movement have intensified the deterioration of American urban neighborhoods and made the plight of these communities impossible to ignore across the entire nation (Orfield, 2017). With once thriving neighborhoods boarded up and their residents struggling to lead healthy, productive, happy lives, national and local foundations have gravitated towards place based solutions to meet the needs of their communities (Martinez-Cosio & Bussell, 2013). And the

Great Recession of 2008 devastated many neighborhoods that had been revitalized and seemingly overnight wiped out the wealth generated by many of the inhabitants in newly revitalized neighborhoods or neighborhoods which had seemed to be doing well (Martinez-Cosio & Bussell, 2013; Orfield, 2017).

The continuing challenges in urban areas combined with the decades long-retreat of the public sector, particularly the federal government, has led to thousands of new foundations forming. For some conservative foundations, this is seen as the proper way to provide these services – using “private” grants to serve public. For more progressive foundations, this is what is needed in an era of government retreat, even if they are cautious not to set a precedent of philanthropy fulfilling the role of the public sector (Martinez-Cosio & Bussell, 2013; Rapson, Overview of Kresge's History, 2017; Fleishman, 2007). However, while the proliferation of foundations has made more grants available to more nonprofits, an unintended consequence has been the fragmentation of resources. Average grant sizes have fallen, and while this means that smaller organizations may now have more options for funding, it also has reduced the frequency of major “brick and mortar” investments that can make major impacts in a neighborhood (Martinez-Cosio & Bussell, 2013).

With 50 years of philanthropic grant making having not reversed the divestment in urban neighborhoods, with many revitalization efforts producing gentrification and displacement, and in the aftermath of the financial crisis, there is a sense that new approaches are needed (Rapson, Overview of Kresge's History, 2017; Coletta, 2017; Martinez-Cosio & Bussell, 2013; Fleishman, 2007). The traditional grant making tools have not had the transformative effect they have intended to. And in a new political climate, with a federal administration that appears unaware and antagonistic about “the inner city,” and with the national discourse increasingly pitting urban

against rural and suburban America, the need for new leadership, new approaches, and new resources in urban revitalization is clear.

This thesis picks up at the end of this history. Drawing on the lessons from the past 100 years of philanthropy and assessing current practices, I will seek to identify new ways that Philanthropy can act to more effectively bring about the urban redevelopment goals of their trustees and staff.

## Critiques of philanthropies

For all the positive aspects of philanthropy, it is critical to recognize that philanthropy, despite its purported noble intentions, is not without its flaws and there are certainly many criticisms of philanthropy, both as a construct and as individual institutions.

A major critique, which is related to nearly all of the others which will follow, is that philanthropy is accountable to no one but itself. While there are government regulations about how much a philanthropy must spend and guidelines regarding how such funds may be used, these are extremely limited (Foundation Basics, 2017; Fleishman, 2007). Apart from these limited guidelines, there are minimal accountability mechanisms that affect philanthropy (Fleishman, 2007). Unlike the private sector, philanthropy does not face a financial existential crisis if it fails. The ability of a philanthropy to continue existing financially has no relation to how efficient its operations are, how strong its strategy is, or how impactful its actions are. In the private sector, poor operations and strategies can lead to the failure of a business and its eventual liquidation. In philanthropy, no such danger exists. The closest mechanism might be a reputational risk in which a dysfunctional, ineffective philanthropy may be perceived negatively. However, while this may make it difficult to attract and retain talented staff and develop effective partners, the foundation can keep on going on being inefficient or even harmful without any real repercussions.

Philanthropy also lacks the accountability structures in the public sector (Lipman, 2015). While it is possible for governments to go bankrupt, it is far rarer than for private entities, and it has a very different effect on the sector. When Detroit went bankrupt in the early 21<sup>st</sup> century, it did not cease to exist, at least physically. However, performance in the public sector, at least within a democracy, is accountable to the constituency. A pleased constituency will vote to continue

successful public sector actions, and a displeased constituency will vote against those actions which it does not like. This mechanism, combined with extensive transparency requirements for the public sector, force public sector entities to keep performance high, or at least to avoid failure. It is not as acute or responsive a feedback mechanism as the market for private entities, but it is certainly a powerful mechanism. And it is completely lacking in world of philanthropy. No matter how many people oppose the work of a philanthropy, public opinion cannot cause a philanthropy to succeed or fail, although organized communities can block the work of philanthropy through protest, strike, or policy changes (Lipman, 2015). Of course, a board of trustees might shift strategies if the foundation is under attack, but there is no real need to do this – the public has no leverage over philanthropy – other than the threat of changing the laws which enable philanthropy in the first place (Fleishman, 2007).

Related to the issue of low accountability is the critique of philanthropy along the lines that it is an inefficient sector. Because there is no accountability to market realities or public opinions, some would argue that Philanthropies are bloated organizations that serve their own employees more than the public. Alternatively, some might be more gracious and assert that philanthropies are in fact trying to serve the public but get so caught up in self-examination and theorizing that they are not sufficiently responsive to issues nor do they make full use of their resources. Instead of the “lean” systems that exist in the private sector due to competitive processes and to some extent in the public sector by necessity of few resources, philanthropies are able to sustain internal systems and processes that are suboptimal with little reason to change (Fleishman, 2007).

Given that systems are suboptimal and there is virtually no external accountability, another aspect of philanthropy’s inefficiency is that it can be very capricious and arbitrary (Fleishman,

2007; Rush, 2017). All organizations are made up of individual humans with their own predispositions, opinions, personalities, and nuances. Consequently, all human systems inherently will have some level of arbitrariness. However, the lack of accountability, plus the significant resources, within philanthropy make this particularly true in foundations. Foundations are often relatively lean, and consequently individual program officers and managers matter profoundly to the organization's actions. Given the amount of power that rests within these program officers, how they personally approach a problem/solution set has far reaching implications. Program officers, understandably, work based on their own knowledge, experience, and relationships. This means that what one program officer may view as a very good philanthropic action may be rejected by another, simply based on their individual view. Given the lack of accountability, there's no way to "test" which approach is correct. For the program officer this looks like freedom and flexibility and empowerment. For the public and the grantee, this makes philanthropy less predictable and apparently more apt to play favorites (Fleishman, 2007).

Another, related, critique is the ineffectiveness of philanthropy, particularly regarding long term change. While philanthropy is unique in its ability to mobilize "free" capital, rarely is philanthropic capital sufficient to drive real change alone (Rapson, 2017; Rush, 2017).

Consequently, many philanthropies have a goal to "catalyze" change – to fund an initial spark in hopes of creating a conflagration of change. Sometimes this may be the case, such as when a philanthropy poses a matching grant – and thereby inspires others to give and ultimately achieve a goal. However, here, philanthropy was useful but not ultimately able to do anything by itself. More damning critiques would look to examples where philanthropy started something, but was unable to sustain it. A project might look successful and be touted as a success by a philanthropy,

but once their attention and capital moves on to the next project, the unsustainability of the first project becomes painfully clear.

Other criticisms of philanthropy venture more into philosophical grounds. These criticisms often revolve around the ironic power structures that exist within philanthropy. To the extreme, a Marxist/structuralist perspective is that philanthropy is a blatant example of the elite ruling class accumulating wealth and controlling that wealth and then deceptively trying to placate the proletariat by giving them scraps from the treasury and saying it's "for the greater good" (Fleishman, 2007; Lipman, 2015). Even more moderate critics however can point to the apparent conflict of interest between elite wealth being used to solve issues of disempowered poverty. Often philanthropy was founded by an individual whose wealth came from not always blameless business practices. And often those working in philanthropy are well educated, well paid, and enjoy positions of power. How then can philanthropy and employees of philanthropy really seek a more equitable and fair society when such fairness and equality could threaten their privileged position (Fleishman, 2007; Lipman, 2015).

Even if one rejects the notion that the origins of philanthropic wealth are problematic and inherently in conflict with the work of philanthropy, it is hard to deny that a challenging and awkward power structure does exist between philanthropists and the communities they serve. While philanthropy's resources are vast, they are limited. However, the need is not, and ideas and causes are infinite. Therefore, philanthropy must be careful about how it spends its money and where it chooses to deploy resources (Rush, 2017). However, this means that philanthropy has the privilege of choosing where its money goes and is able to set parameters, rules, and expectations about how its wealth is deployed. Those non-profits and other beneficiaries who are doing the work have no leverage in this situation. They may walk away, and so in the extreme, a



philanthropy that has unrealistic expectations will be unable to find partners and will run into tax issues. However, realistically, if a non-profit wants philanthropic investment, it will need to “play by the rules” of the philanthropy. Since, by definition, the philanthropy is operating from a position of abundance and the non-profit is operating from a position of need, this creates an uncomfortable power dynamic where the will and desires of the non-profit are subordinate to that of the philanthropy. Furthermore, since philanthropy is a relatively secure sector and those employed by it often enjoy comfortable lives (Fleishman, 2007) they often do not face the same “life or death” urgency that the communities they serve experience. Coupled with the above criticisms of philanthropy, particularly that they can be inefficient, elitist, and capricious, this can be a major source of frustration for those who are operating in the world of philanthropy (Fleishman, 2007).

While these criticisms are important to note, it is still critical to consider how philanthropy can best be included. If stakeholders in the city or community ultimately feel that the aforementioned flaws are too egregious, they have the prerogative to exclude philanthropy and not seek assistance from the sector. The lack of oversight in philanthropy means that while they are under no one’s authority, they also cannot impose their will unilaterally, though their disproportionate power and influence does make them formidable foes (Lipman, 2015). Nonetheless, the critiques must be noted because philanthropy is not a panacea. It has very real flaws and cannot serve all purposes. Furthermore, the criticisms point to areas where philanthropy can improve. By being aware of common criticisms and shortfalls of philanthropy, those who work for foundations can be sensitive to issues such as power dynamics, and community partners can be aware of some of the challenges involved with working for foundations.

By honestly identifying and addressing challenges that arise during urban redevelopment not only within the project but also within the philanthropy, parties can form a more powerful and enduring partnership and ideally develop skills and systems that can be beneficial in future projects and urban development scenarios.

## Overview of Philanthropic Capital in Urban Revitalization

In discussing the role of philanthropy, Rip Rapson, President of the Kresge Foundation, breaks down the possibilities into three categories – “capital,” “talent,” and “ideas” (Rapson, Planning Session for National Initiative on Shared Prosperity in Cities, 2017). In his assessment, any challenge can be addressed so long as you have the right plan and solution (i.e., ideas), you have people involved who have the skill and will to implement plans and solve new challenges as they arise (i.e., talent), and you have the money to pay for everything (i.e., the capital). This paper will use Mr. Rapson’s frame, but with an acknowledgement that each of those three categories are really just different ways to use philanthropic capital.

The first category, capital, may seem the most straightforward, but there is considerable nuance there. While it is true that this category involves the most clear and explicit transfer of funds from Philanthropy to the operational field partners, there are a number of ways this can occur. The first of these methods is the most traditional form of philanthropic activity: grant-making. In making a grant, a philanthropy gives capital to a non-profit or government entity for a specified purpose, including simply continuing that entity’s operations. Typically, there is an expectation that the grantee will let the foundation know how the capital is being used and share reports on the impact the grant has had. However, there is no expectation that the grantee will ever pay back the capital or even return portions of it. At the same time, the foundation is somewhat powerless once the check has been written. The considerable power foundations have during the grant-making process diminish once the recipient has the funds and is operation. Of course, if a grantee wants future support, they will need to play nice.

Grant making is the philanthropic activity that is most tied to historic charity, discussed above. And it is the most common way philanthropic capital is deployed. While this thesis is intended to

investigate non-traditional roles of philanthropy, it would be impossible to fully discuss non-traditional roles without squarely noting how traditional philanthropy has acted in urban redevelopment and explaining what that looks like, what the strengths of such engagement are and what are some of the short falls. And even within grant making, there are variations in exactly where the money comes from. Many foundations grant from returns on their endowment, but a nontraditional role of philanthropy would be actually making grants from the corpus. This is the reality of foundations that have end dates but is anathema to larger foundations intended to exist into perpetuity. Consequently, it is worth dedicating some time to exploring some traditional and non-traditional types of grant making within urban redevelopment.

In addition to giving money away in the form of Grants, Foundations can also engage in Program Related Investments (PRIs). Like Grants, PRIs exist to further the mission of the Foundation and are made to organizations who are doing work that aligns with the Foundation's priorities.

Unlike grants, there is an expectation that PRIs will be returned the Foundation, possibly with a return. There are a few different types of PRIs, including deposits, loans, and guaranties, and (as with grants) there are variations in where the capital for PRIs come from. These will be discussed in the PRI specific chapter that follows.

Beyond purely financial tools, there are other ways that philanthropy can use its capital in urban revitalization. To continue with Mr. Rapson's frame, one approach is to use capital to generate ideas and knowledge. For this to occur, a philanthropy will commit its resources, in terms of both its financial capital and the capacity of its staff, to finding and disseminating knowledge about urban revitalization. This could take the form of commissioning and funding a study of a particular issue, for example urban workforce development or urban housing, that can then be used by community and governmental partners. It could also take the form of organizing and

funding programs for people and organizations to exchange ideas and share best practices with one another. It should be noted that grants can also be used for knowledge/idea generation, for example if a foundation were to sponsor a city's development of a neighborhood plan or fund a conference. What distinguishes this as a separate use of capital is both the origin and intent of the study. Here, the philanthropy determines the idea or knowledge to be developed based on what they perceive in the environment. The philanthropy then is the primary driving force for the knowledge and idea generation, without customizing it to the specific desires of a singular stakeholder (apart from the inevitable biases of the philanthropy itself). Finally, the knowledge and ideas are developed in order to be shared broadly and help multiple organizations and stakeholders, not just a grantee and their beneficiaries, as might be the case when a philanthropy gives a grant that a grantee uses to conduct their own research and analysis.

Idea and knowledge creation also includes the more organic realities of philanthropies in which program officers and foundation staff organically develop broad knowledge and understanding of a sector and issue simply by working to understand the space more deeply as they make grants within it. What sets this type of capital deployment apart from pure "capital" is that the philanthropy very much remains in control. The philanthropy is identifying and paying the organization and persons conducting and sharing the resource. Ultimately the end goal is the same: urban revitalization. However, this approach offers some unique benefits in terms of scale, orientation, and alignment across multiple partners.

The third use of capital this thesis will examine is capital used to provide talent. The success of any organization or initiative depends on the human beings involved. In order for any endeavor to be successful there must be a sufficient number of people involved, they must be able to spend sufficient time on the matter, and they must have the required skills to achieve the project's

goals. While there certainly are people who are willing to provide their time and talent simply from their own sense of philanthropy and altruism, or even commitment to community/mission, there is usually a cost of talent. Here philanthropy can also play a role. Philanthropy can hire directly individuals to lead urban development work and thereby directly provide the talent required. Alternatively, philanthropy has the option to pay for trainings, conventions, and other programs to help build capacity in existing leaders/talent. Each one, as with the above tools, has its own contextual requirements and challenges.

Finally, though this is not in Mr. Rapson's framework, this thesis will briefly explore how a philanthropy's operations can impact urban redevelopment. Since philanthropies are businesses with employees, vendors, contractors, and other service providers, they can use their own business operations to promote urban redevelopment.

By examining how philanthropy can engage with urban redevelopment through direct capital engagement, funding of ideas, provision of leadership, and operational impact, this thesis will identify some of the ways philanthropy can effectively and powerfully address urban revitalization issues in American cities.

## Grant Capital for Urban Revitalization

### Overview of Grants

Grants are the most common philanthropic use of capital and the most traditional way philanthropies have been involved in urban revitalization work. It also represents a substantial amount of capital. In 2014, over \$60 billion was given to grantees by foundations (Foundation Data, 2017). Given the complexities of defining urban revitalization it is impossible to quantify just how much of urban revitalization activity was based on grants.

A grant is, at the most basic level, a transfer of cash from a philanthropy to a “grantee.” A grantee can be any organization the philanthropy chooses, but must, by law, be a not-for-profit organization in order for philanthropy to continue enjoying the tax benefits that exist within the industry (Foundation Basics, 2017; Fleishman, 2007). This still gives the philanthropy a broad range of flexibility as it can give to 501c3 nonprofit organizations, religious institutions, and even to government agencies. So, within the realm of urban redevelopment, a philanthropy could provide a grant to a non-profit organization working on neighborhood blight removal or providing affordable housing, it could provide a grant to a local church providing charitable services to neighborhood residents, and it could provide a grant to the city government for planning work or for city services. A grant could NOT however be made to a local business that was opening in a place needing urban revitalization nor could it provide a grant to a for-profit developer working in that area. This is not to indicate that grants can never have benefits to for-profit entities. A grant to a non-profit main street organization, for example, may very well benefit local for-profit business if that main street organization provides loans, training, and technical assistance to nearby for-profits and/or invests in community improvements that attract more customers to local enterprises.

Before a grant is made, a philanthropy will work out an agreement with the grantee. The agreement will specify what the grant money will be used for, the timing in which it must be used, and also what it cannot be used for. This gives the philanthropy considerable power in determining how its capital is used, even if it determines that the grant should be “general purpose” with the grantee completely determining how to use it. Beyond giving the philanthropy control over how its money is used, requirements and limitations do protect the philanthropy by establishing safe guards against the money being used for activities that would put philanthropy’s tax advantages at risk – such as lobbying.

The agreement also sets out expectations for what the grantee will provide back to the funder – usually in the form of reports. These reports serve multiple functions. First, they provide some accountability to help the grantee stay on track and ensure that the dollars are being used as planned and are having the intended impact. Secondly, they allow the philanthropy to see how their grant dollars are having impact so that the philanthropy can assure trustees, critics, and government agencies that their use of capital is beneficial and creating positive impacts. Finally, it provides a learning opportunity for both the grantee and the funder. By developing reports, grantees are forced to assess how they have done and what practices should be continued and which ones should be discontinued. When they report this to the philanthropy, this gives the philanthropy the chance to learn from their grantees’ lessons so that they can apply those lessons to future projects – both in the form of advice and, when appropriate, in the form of requirements and demands as part of grant agreements (Coletta, 2017).



## Limitations of Grants

Even though grants are the most common and understood form of philanthropic capital, they do have limitations. First, they are not inherently sustainable. Grants represent money going “out the door” of philanthropy with no expectation that any of the money will ever return. Consequently, a philanthropy must always be producing enough capital through fundraising and/or management of its endowment to provide grants. Some foundations are set up to sunset after a given amount of time or when funds are depleted, and for these the need to generate capital is not a concern (Fleishman, 2007). However, the fact remains that grants are self-depleting and are not in and of themselves a sustainable “business model” for philanthropy – despite being the main activity of most philanthropies.

Related to their self-depleting nature, grants are not readily scalable or well suited to create synergies. Certainly, the impact of a grant can be amplified by adjacent, related grants, such the whole becomes “more than the sum of the parts” but that can only occur within a very well-coordinated system. Furthermore, a grantee may be able to leverage a grant for additional funding. Once one funder has contributed to an effort, particularly if it is a well-known, reputable funder, a grantee may be able to point to that to encourage other funders to participate. A grantee might also be able to use one grant to develop a longer-term funding stream, perhaps by developing a new business line, building capacity to partner with local governments and receive public resources, or even hiring and supporting a full time fundraiser to help sustain the work beyond the life of an individual grant. Regarding replicability, there is the possibility to “scale” an idea from a grant by replicating the project the grant allowed in other areas and situations – but that is more of scaled idea than a scaled grant. With a proven idea, a grant may be more easily approved, but this is not a sure thing.

Finally, a grant can only be valid and effective tool in the right context. Despite the apparent flexibility and universality of the tool, effective grant making does require foundation staff to conduct analysis and understand the environment into which the grant will go. At the most fundamental level, a grant must be made to an eligible non-profit or governmental entity (Foundation Basics, 2017). Though these are often the very sorts of organizations engaging in urban revitalization work, this limitation can prove challenging to small and/or newer organizations who may not have the prerequisite paperwork and tax filing. And of course, this ability to make tax exempt grants (and the continued existence of philanthropy in its current form) depends on federal tax law which current events demonstrate are far from immutable.

More important contextual considerations pertain to the other section of Rip Rapson's framework discussed earlier. In order for a grant to be effective the grantee must have good ideas and plans and also good leadership to realize those plans. Furthermore, the local ecosystem – be it the neighborhood, city, region, or state – must be considered. For instance, a non profit may need a different scale and purpose of grant in a city with an engaged, effective local government versus one in which the local government is ineffective or even antagonistic.

## The Role of Grants in Urban Revitalization

Turning to the specific topic of this thesis, it is essential to note how grants can play a role in urban revitalization and how they have done so. Within urban revitalization, philanthropic grants can play a number of roles, as they can in any scenario. Often, urban revitalization grants support the work of non-profits who are themselves focused on issues related to urban revitalization. For example, many community foundations provide grants to community development corporations to support their work in physically redeveloping neighborhoods. A foundation may also provide funding service organizations which are seen as essential to address social issues in a depressed area, such as providing child care, professional training, health services, or other programs.

Critically, because foundations have deep but not unlimited pockets, they often seek opportunities that provide the greatest leverage for their funding (Foundation Basics, 2017).

While a foundation might be able to pay for any urban revitalization effort it might choose, often they will seek opportunities that impact a substantial number of people, take a compelling risk in community improvement, and offer the opportunity to develop lessons which can be applied in other settings (Rush, 2017). For example, while a neighborhood organization seeking a new playground might look to a philanthropy to provide a grant to build the facility, this is unlikely to be compelling for a philanthropy. The impact is too local, and the philanthropy would likely be inclined to say that a playground is the responsibility of local government or hyper-local charitable organizations. If, however, the playground was “abnormal” in some way that would prevent it from being built according to the existing parks and recreation regime, and particularly if it might produce lessons which could apply elsewhere, a foundation might be more interested. So while a standard playground might not be compelling, one that was designed to especially serve disabled individuals, encourage people to interact in new ways, promote arts and culture,

foster civic involvement, contain an educational component, or something else which would not be approved by the city government, might be considered by a philanthropy.

A somewhat unique role that grants can play is in supporting physical infrastructure and buildings. Some of the earliest philanthropists used their grants in this way – to build universities, schools, and other buildings that bear their names (Fleishman, 2007; Martinez-Cosio & Bussell, 2013). For urban revitalization, this could be providing a large grant to help build or restore an anchor institution in a neighborhood. By focusing grant dollars on a major entity, a philanthropy can reduce risk for other developers who will have some certainty that that anchor will withstand changes – and can encourage residents to stay or even to come to populate the area given the access to the anchor. Philanthropic grants can also help improve parts of a community that either do not clearly have an “owner” or have an “owner” who is failing to complete their responsibilities. For example, streetscape improvements may not clearly fall within the purview of the municipality, and without a coordinating mechanism in place, local businesses and residents may not be able or willing to provide those improvements themselves. A philanthropy could provide the capital to make such improvements, which then would improve outcomes for all community members.

## Grant Case Study: Knight Foundation in Akron, Ohio

One example of a grants based urban revitalization effort is the work of the Knight Foundation in Akron, Ohio. Akron, an hour drive south of Cleveland, is the birthplace of the Knight Brother's newspaper empire and therefore a critically important city for the Foundation they established (Akron, 2017). Here, the Knight Foundation noticed that the local corporate leaders had largely abandoned the city and the public sector was under resourced to attend to the challenges facing the city (Kutuchief, 2017).

What the Knight Foundation did notice was a great potential around Summit Lake, a long-neglected water feature south of the downtown. Realizing that there was historic and natural appeal in the area, but that it had been isolated from opportunity through the construction of I-76 and the priorities of city council, Knight Foundation stepped in. The Foundation provided grants to the city to test the water quality of the lake, revealing it to be significantly less toxic than originally expected (Kutuchief, 2017). The Foundation also provided grant funding to local neighborhood organizations to increase their ability to engage the community and improve the area. Through this work, the community developed a greater sense of ownership over the lake and also was able to provide amenities customized for the local residents that included a new boat slip, community picnic areas along the lake, and improved physical access to the lake from the surrounding communities (Franks, 2017).

By providing specific grant capital, Knight was able to restore a powerful natural community asset— Summit Lake. This increased the stature of the neighborhood and raised its profile within the city (Kutuchief, 2017). Additionally, this work helped further integrate the local community to the downtown community of Akron through a bike trail that linked the two areas. Without the

grant dollars, this project most likely would not have come to fruition and with Knight's support the community was empowered to embrace the natural asset they had and use it to amplify their own position within the community.



## Program Related Investment Capital in Urban Revitalization

### Overview of PRI

Another method through which philanthropy can deploy capital is by investing, known in the industry as Program Related Investments, commonly known by the acronym “PRI” (Foundation Basics, 2017; Dempsey, 2017; Van Meter, 2017). These take a number of forms including equity investments and debt (true PRIs), mission related investments (MRIs), deposits, and guaranties. Each works in its own unique way, but all of them share the fact that, unlike with grants, there is an expectation that the philanthropy’s capital will be returned with some level of return on the capital. This addresses the sustainability issue that grants face – successful PRIs can enable later PRIs, so that success has not only a strategic impact element but a financial implication as well.

Additionally, each PRI creates a level of partnership and commitment between a philanthropy and its partner that extends far beyond what is expected in a funder-grantee relationship. For starters, the length of the relationship and arrangement is often far more protracted for PRIs than for grants (Dempsey, 2017). While grants may last a year or two, PRIs often have multi-year terms. A grant is an exchange. A PRI is a commitment. Not only is it longer lived, since there is an expectation of financial return from a PRI, the level of attention given to PRIs typically exceeds that given to a grant (Dempsey, 2017; Van Meter, 2017). A foundation with a PRI must keep track of its investment at a level of detail and frequency of check in that goes beyond a final progress review and one or two interim reports. A philanthropy wants both a grant and a PRI to be successful. However, a “failed” PRI is far more painful and a successful PRI even more beneficial for a philanthropy than the respective outcomes for grants.

As mentioned above, PRIs come in a variety of forms. This next section will describe some of the different types of PRIs and how they work for philanthropies and their partners.

- Program Related Investments (PRIs) – the same tax code that gives philanthropy their tax benefits and establishes the rules for grants also establishes the idea of a Program Related Investment (Dempsey, 2017; Evans, 2017; Fleishman, 2007; Foundation Basics, 2017). In a PRI, a philanthropy gives its capital to a partner not for free, as with a grant, but with some expectation of return. Frequently, because of the nature of philanthropic work, this return is anticipated to be lower than what might be expected in the broader market. This means that philanthropic investments can be far more affordable and attractive than market rate capital, and from a philanthropic standpoint, some return is better than no return at all – as would be the outcome of a grant (Dempsey, 2017). An essential criterion is that in order for this transaction to meet the standards set forth by the IRS, the investment must further the programmatic goals of the foundation (Evans, 2017). So, for example, a foundation with a program related to urban revitalization could invest in a housing project but could not invest in a new farming initiative or a biotechnology start up that are unrelated to the core urban revitalization mission.

PRIs can be debt or equity based. In a debt arrangement, the philanthropy gives the partner a certain amount of capital and the partner eventually pays the philanthropy back, plus interest. Importantly, when the philanthropy gives away the capital, it does not count against the IRS requirements, and only when a default happens does the amount need to come out of the program budget. This allows a foundation to make many loans of this type (Dempsey, 2017).

In an equity arrangement, the foundation becomes a partial owner of the enterprise. Similar to a private sector equity partnership, as the enterprise grows and is successful, the foundation benefits from the growth. The philanthropic capital allows for the



enterprise to grow and expand, and while there is no fixed schedule for the requirement of the partner to “pay back” the capital as when there is debt, the value of the philanthropic capital grows proportionally to the growth of enterprise’s market value. The foundation eventually grants the value back or may sell it to a new partner, in either case recovering the original capital and ideally receiving significant returns as well (Dempsey, 2017).

- Mission Related Investments (MRIs) – Mission Related Investments are similar to PRIs but with the very significant difference that they are expected to produce market-rate returns or above. They can more generally be linked to the mission of a foundation and have a social return, but do not need to be as clearly tied to the foundation’s program as a PRI. A major difference between MRIs and PRIs is that while the PRI often comes from the grant budget of a foundation (Salamon, 2014), the MRI comes directly from its “corpus” or endowment. This means that the potential capital available is very significant but also means that the risk of loss is perceived to be higher by foundation investment staff and leadership (Dempsey, 2017).
- Deposits – Deposits are a particular type of PRI in which the foundation gives a large amount of capital to a partner for that partner to hold on their balance sheet as an asset. This is most relevant to financial institutions such as Community Development Financial Institutions (CDFIs) who must have deposits in order to perform their services (Dempsey, 2017). While this may look like debt, a deposit is different for a number of reasons. First, unlike debt which is “paid for” through interest rates, a deposit often has a separate fee that is often far lower than an interest rate would be for a comparable amount of money. This is because a deposit is far less risky than a loan. While both loans and deposits are

used by the bank or credit union to generate returns, deposits are insured by the FDIC or NCUA and therefore are protected even if a portfolio of loans using the deposit were to become distressed. Finally, a deposit, unlike a loan, is not amortized, or paid back over a long period of time, and can be for any period of time – whether that is a few months or years or in excess of a decade. While loans can also be for any range of time, they are almost always time-bound up front and do tend to be for a 5-10 year period (Dempsey, 2017).

- Guaranties – Guaranties are yet another variety of PRI which are particularly interesting. In a guaranty, no money actually leaves the philanthropy. Instead, a philanthropy promises, often to a financial institution, to provide capital in case the initiative being guaranteed faces financial hardship. In other words, if the foundation’s partner cannot pay off its debt, the foundation promises to pay for them, up to a limit. This is a very powerful tool as it allows organizations with weak balance sheets and/or poor or nascent credit to access a much greater amount of capital than they could otherwise. Furthermore, it has unique financial aspects for the foundation. No cash leaves the philanthropy, and it only counts against the philanthropy if the guaranty is called (Dempsey, 2017; Evans, 2017). In return for providing the guaranty, the philanthropy often requires some level of guaranty fee, but this is typically nominal. In a scenario where the guarantee is not called, the philanthropy benefits from having impact without spending any capital, the partner benefits from being able to access more or cheaper financing than it otherwise could, and the main financier benefits from being able to participate in the arrangement with a significantly reduced level of risk. If the guarantee is called, it is still often a lower cost to the philanthropy than if they had provided the initial capital through a grant, if they even

would have considered such an involvement using grants, and the philanthropy's involvement allows them to be aware of possible issues before they arise and possibly work to avoid a call on the guarantee (Evans, 2017).

As noted above, PRIs provide a number of benefits that directly contrast with the limitations of grants. PRIs are (to some extent) self-sustaining as they provide impact and also generate new capital for future investments. They also structurally link the interests of the foundation and partner in ways that are rare for grants since the foundation has a financial and missional stake in the project.

## Considerations with PRIs

There are limitations of course. The main limitation is that they cannot be universally deployed. They are only a possibility when a project can provide some sort of revenue stream in order to repay the investment and provide a return. A partner that does not have non-philanthropic income or some plan to generate revenue as a result of a PRI simply cannot be invested in – only grants will make sense.

Additionally, as with a grant, a PRI depends upon local and federal contexts. This is particularly true for tax and investment policies and how they relate to philanthropic capital. However, other local contexts, such as the availability of capital partners and their willingness to work with PRIs must be considered. Even if, for example, a philanthropy is willing to provide a guarantee for a project, if there is no bank willing to provide the capital, the guarantee is unhelpful. This can be a particularly real challenge in areas with a lack of well established community development financial institution or community bank infrastructure (Dempsey, 2017).

Furthermore, despite the power of PRIs, they are largely not understood by philanthropy or their partners. Consequently, the support infrastructure is quite nascent and it is challenging to use PRIs to their full potential. Not only do existing staff often lack the experience to manage PRIs, they are fully at capacity with their grant-based work. Without a board that is supportive of and knowledgeable about PRIs, sufficient staff to manage PRIs, and the necessary information technology, legal, financial, regulatory, and portfolio management infrastructure, even a willing foundation will be unable to effectively deploy and manage PRIs. Of course, this is a very addressable limitation – one simply needs to develop the familiarity and comfort with PRIs

within the sector. However, this is easier said than done in an industry that has relied on grants for so long.

More fundamental to the matter are concerns about ethics that might emerge. Given the critiques of philanthropy raised earlier, there could be some issues perceived about a philanthropic entity making money from an organization serving people in need. Of course the response is that those people will not be helped without capital and that philanthropic capital is likely more flexible and understanding than typical bank capital, but it is a limitation none the less.

Finally, the success of a PRI is very much in the hands of the partner. While there are ways a philanthropy can try to ensure a success, from sourcing deals well to embedding itself within the organization, perhaps through a seat on the board, a philanthropy has limited agency to determine the outcome of a PRI. They are involved and engaged more than with a grant. Nonetheless, they are putting a great deal of trust into their partner organization.

At this point it is worth noting a phenomenon that exists within philanthropy that is related to PRIs and represents a largely untapped opportunity. For endowment-based philanthropy, PRIs are often budgeted for in the same way as grant programs. PRIs are made from a predetermined pool of capital. However, this often represents a small fraction of the foundation's overall investable assets. The bulk of the assets remain invested in traditional market vehicles in order to provide the demanded returns so that the philanthropy can persist into perpetuity. If foundations were to deploy more of their corpus through PRIs, the impacts could be profound, however it is extremely risky. Granting from the corpus poses a direct challenge to a foundation's commission to exist into perpetuity. However, investing the corpus in ways that align more strategically with the foundation's program and mission could unlock billions of additional dollars for social investments. This would also address some of the issues about philanthropic excess and wealth –

since that wealth would be directly invested in communities that the philanthropy serves.

Furthermore, this would reduce the amount of philanthropic capital invested in industries which may be counter to philanthropic values such as for profit prisons, the tobacco industry, and luxury urban developments that contribute to displacement.

## PRIs in Urban Revitalization

For urban revitalization, PRIs are critical. In fact, in the 1970s, philanthropy started a whole new industry of “intermediaries” that could more nimbly between philanthropic capital and community needs to strategically deploy capital in creative ways. These intermediaries, notably the Local Initiatives Support Corporation (LISC), were tasked to both understand the real capital needs of organizations and communities in divested neighborhoods as well as the opportunities to obtain capital from local and national philanthropies and governmental organizations (Van Meter, 2017; Abariotes, 2017). PRIs are the lifeblood of these intermediaries as they are truly investments of the foundations.

Whether through a philanthropy or intermediary, the philanthropic PRI can arrive in communities in powerful ways. Debt and equity from philanthropy can allow developers to produce affordable commercial and residential spaces, since they do not face as high of a capital cost as they would if they were reliant on traditional finance. Similarly, organizations providing services can get PRI financing that is more tailored to their specific needs and business models.

Guarantees can unlock businesses that could not be started given the risk associated with areas in need of revitalization. If traditional banks will not loan to a developer or business operating in an “unproven” and therefore “risky” market, a guarantee from a philanthropy (or subordinate debt) may be able to convince them to provide capital. This could get new businesses started and new buildings built which otherwise would fail before they started (Dempsey, 2017; Rush, 2017).

It must be noted that PRIs can be combined with grants and other philanthropic tools to amplify the philanthropic impact. For example, philanthropic knowledge development and leadership, to be discussed in later sections, could help identify opportunities in which PRIs could be deployed

or to create environments in which they can be successful. Furthermore, PRIs and grants are often combined (Evans, 2017; Dempsey, 2017). This further strengthens the finances of partners and also increased their flexibility in how to deploy their resources. This might, for example, look like a grant to support technical assistance activities at a community business support center while a PRI could provide capital that the nonprofit would use to invest in local businesses.

Very interestingly, for urban revitalization, one could imagine a very powerful outcome if a philanthropy contributed its corpus to real estate and venture investments in the neighborhood through a range of vehicles and a mix of market rate and affordable projects. With a philanthropy focused on urban redevelopment having a powerful seat at the financial table, urban revitalization projects could be directed to truly benefit the community as much as possible. Some returns will be necessary to investors, but with a philanthropy involved, it may be less likely that unscrupulous, greedy investors exploit the situation and seek to maximize their own profit without considering the implications for the existing community.



## PRI Example: LISC - Transit Oriented Development in Massachusetts

In Boston, Massachusetts, the local chapter of the Local Initiatives Support Center found significant value in engaging PRI for local urban revitalization. Locally, Boston-LISC saw that equitable transit oriented development would be essential for equitable growth in Boston (Van Meter, 2017). With a goal to create a fund to support local transit oriented development, LISC was able to work with local philanthropies to create a PRI that helped generate commercial activity around transit hubs in a way that could lead to the creation of new opportunities. LISC-Boston used its influence to draw in attention from local philanthropies (The Boston Foundation and the Hyams Foundation) and was eventually able to structure a fund in which the first loss was \$1M from the Commonwealth of Massachusetts, with the rest of the capital stack being comprised of \$3M from two local foundations and \$1M from LISC. Because the local foundations in their PRI only charged an interest rate of 1%, this allowed LISC to offer \$5M in capital to relevant transit oriented developments with an expected loan to value ratio of 120%, an inconceivable ratio for most real estate projects (Van Meter, 2017).

Though a relatively young fund, this PRI has supported over a dozen local projects including The Congress Street Residences in Salem, Massachusetts, and Bartlett Station in Roxbury, a neighborhood of Boston, Massachusetts. The Congress Street Residents, built by the North Shore Community Development Coalition near the Salem commuter rail station, provide seven units for the formerly homeless, 16 units for households with less than 30% of area median income, and 64 units for households with 60% of area median income (Van Meter, To help communities thrive, create transit-accessible affordable housing, 2016). LISC's funding helped support risky early phases of the \$25.9M Salem project which was ultimately completed with support from the Massachusetts Department of Housing and Community Development, historic tax credits due to

the project being a rehabilitation, city grants, the Raza Development Fund, Enterprise, PCI, CEDAC, and Eastern Bank (Van Meter, To help communities thrive, create transit-accessible affordable housing, 2016). While the project required multiple partners, LISC's low-interest, high loan-to-value capital was critical for the project getting started and attracting all of the eventual partners to provide affordable, transit oriented housing in Salem.

In Roxbury, Bartlett Station is a joint venture between Nuestra Comunidad Development Corporation and Windale Developers, a private developer (Boston, 2017). Alongside Bank of America, LISC contributed \$19M in loans and equity, some of which came from the transit oriented development PRI. This provided low interest financing to the project, which will include 60 residential homes and a ground floor grocery store, while also helping ensure that the developer respected the affordability goals for the project – over half of the units are designated for low income households. Furthermore, by being involved, LISC was able to facilitate conversations between the developers and community members and groups in order to make sure the project was as responsive to community needs and desires as possible (Boston, 2017).

## Knowledge Development Capital in Urban Revitalization

### Overview of knowledge development

Philanthropy sits in a privileged position in a number of ways. Not only do foundations have substantial capital assets, they also have a unique vantage point. While the lack of accountability and relative independence from market and political forces lead to criticism and concerns described in earlier chapters, they also allow philanthropy to take a broader view of challenges than many other stakeholders (Abariotes, 2017; Fleishman, 2007; Rapson, Planning Session for National Initiative on Shared Prosperity in Cities, 2017; Rush, 2017; Martinez-Cosio & Bussell, 2013). Because philanthropy is less concerned with year-by-year survival, it's future secured by the endowment, philanthropy can take a long term view of issues. While businesses and even nonprofits must think on the scale of weeks and months, philanthropy is able to consider issues at the scale of years and even decades. Furthermore, philanthropy can look across issues and sectors in a way that is often difficult for other entities. Powerful siloes certainly do exist within philanthropy, but a very positive aspect of philanthropy being somewhat removed from the "on the ground" work is that philanthropy has the privilege to look beyond daily challenges and has the patience, both culturally and financially, to accept slower change.

With this freedom to consider issues more broadly, both in terms of time and in terms of scale and scope, philanthropy has a powerful role as a steward and developer of knowledge. In part, this happens organically. As program officers work on grants, they develop their knowledge of issues and, if they are evaluating the performance of grants diligently, they will also see what works and what does not work for solutions. Coupled with the fact that most program officers have spent extensive time studying or working in the particular area of focus before they arrive

in their philanthropic roles, program officers are potentially some of the most knowledgeable experts in particular fields.

The knowledge development can also happen in very intentional ways, requiring the use of philanthropic capital – both directly and through the allocation of staff time and priorities, which has capital implications. Recently, many philanthropies are creating entire roles and even departments tasked with coordinating the internal learning process to ensure that lessons learned transcend individual program officers and can be shared more widely (Fleishman, 2007; Coletta, 2017).

Even without these roles, many industry groups, through their regular activities and conventions bring together practitioners to exchange knowledge and experience in a hope that philanthropic actors can learn from one another and become stronger together.

This is a very important role for philanthropy for, as Bob Van Meter of the Boston chapter of LISC noted, “Philanthropy is often interested not only in the success and specific impact a project has, but also in how the lessons learned from a specific project can be scaled and made to change public priorities and public policy” (2017). Philanthropy often seeks to generate and catalyze systemic change, which requires that knowledge is widely shared. This can be another way capital is used – to pay for specific aspects of a project that involve documentation and sharing of lessons learned.

Another way in which philanthropy can use capital to generate ideas has to do with commissioning research and reports. Rather than providing a grant to a non-profit, a foundation can use its own capital to hire experts, consultants, and/or academics to conduct research on a given topic.

## Considerations for knowledge development

Knowledge development presents a unique opportunity for philanthropy to align stakeholders around a shared set of data, information, or ideas – all of which are informed by philanthropy’s privileged “perch” – able to look across municipalities, organizations, and even across time periods more fluidly than many “on the ground” organizations (Abariotes, 2017). However, for a philanthropy to step in as a credible source or even sponsor of knowledge requires circumstances. One essential criteria is that the knowledge must be useful and needed. If it answer questions no one is asking or provides data that is already available, it will provide little utility. As with grants, the knowledge must go to organizations who can do something with the information – who have the capabilities and leadership and are positioned to act.

Another essential consideration is that the philanthropy must have the credibility to present the knowledge. If the community perceives the philanthropy as having hidden or undesirable motivations, distrust can mean that even very good research and well developed plans and ideas may be rejected outright. The knowledge may also prove to have little impact if the philanthropy lacks the authority to speak on the matter. A philanthropy that is based in a particular geography or has worked there, for example, will be better positioned to sponsor a regional study than a philanthropy who has never engaged in that particular geography. And while it may be that a philanthropy wants to conduct a study to determine how to begin engaging in a new geography, it may be best to do this through partnerships and grantees than through their own knowledge development efforts.

Regarding the content of the knowledge development work, rather than the philanthropic sponsor, it is essential to balance the desire for work to apply to as many stakeholders as possible while also being useful and relevant for the sake of action. Research targeted on a single



neighborhood may be extremely helpful and useful for agencies and organizations focused on that geography but be irrelevant in other neighborhoods, much less other cities. On the other hand, research that attempts to discuss a topic such as “housing” at a national level may be so broad that it fails to deliver useful, novel insights for specific housing projects. In choosing to develop knowledge, a philanthropy must consider where its expertise and reputation affords it a voice and then be intentional about the scale of applicability it desires from the knowledge development.

## The role of knowledge creation in urban revitalization

Within the realm of urban revitalization, knowledge creation can be a matter of developing greater understanding of a specific topic or geography, or identifying and sharing new solutions for particular issues or geographies. While there may be some overlap between knowledge creation and grant making, for example, when a foundation contributes to a community development corporation's neighborhood plan, what sets "knowledge creation" capital apart is who is driving the process and for what reason. For a grant to generate knowledge, the grantee is leading the effort and is developing the knowledge for the benefit of their stakeholders, though their stakeholders may be very broad. In knowledge generation, the philanthropy is leading the effort – determining the research questions, hiring research partners, and managing the process. Furthermore, philanthropy almost always is generating knowledge for a broad audience since, as has been discussed, philanthropies often want their investments to have both local and national impact.

Importantly, this work can be a critical initial step as a philanthropy prepares for engaging in urban revitalization for a geography or based on a particular issue. By sponsoring and being involved with knowledge development, a foundation can get a better sense of the important issues and stakeholders and put forth a plan. This can then be used to forge partnerships with local governments, nonprofits, community members, and other stakeholders and possibly play a leadership role in coordinating across those various entities. Even if it is unnecessary or inappropriate for the philanthropy to play a coordinating or leadership role, the knowledge it has developed will be helpful for shaping its capital deployment. The research can help elevate opportunities for grants and PRIs and provide some of the fact finding to shape the investments.

In this way, the individual capital injections can come together in a coordinated way that sequences them correctly and amplifies their impact.

For a specific example, one could look to Kresge's work in Detroit where Kresge sponsored a city-wide planning effort called Detroit Future City (Rapson, Overview of Kresge's History, 2017). This was done in partnership with the city, but served a different role than a typical grant. The goal was not only to enable the partner to plan, but was to create a broad plan that could provide research and guidance for a large number of organizations working on relevant topics in the city. Furthermore, unlike with other planning grants, for example those provided by Housing and Urban Development or the US Department of Transportation, Kresge was the instigating force behind the plan. Rather than the city asking for a grant to conduct the plan, Kresge saw a need, saw how the plan could serve multiple stakeholders, and took it upon itself to conduct the plan, including the City of Detroit as a natural partner. This gives significant scale to the project and is a unique role for philanthropy – generating knowledge that can be broadly used when other stakeholders lack the resources or organizational capacity or will to develop it.

This raises another feature of philanthropy that makes it particularly effective as a generator of knowledge – there is not much “competition” in philanthropy. That is, unlike private sector actors whose competitive advantage requires that strategies, innovations, and lessons learned are tightly guarded, philanthropy and the non-profit sector can be relatively open with what they have learned. While there is a legitimate criticism of knowledge sharing from philanthropy that it is self-curated and therefore often biased towards painting initiatives the actions of philanthropy in positive light (Fleishman, 2007), philanthropic organizations are often quite willing to share information among themselves and with partners. In fact, this often happens organically as those in the philanthropic sector move between employers and share knowledge at summits and



conferences targeted to the sector. Philanthropy wants to see grantees and investees thrive, so staff will share lessons learned from other projects. Furthermore, most philanthropies are working towards the same goals – just from different angles. So, when a philanthropy discovers a particularly good way to do something or realizes the error in their strategy, they are willing and interested in sharing these lessons. Certainly, the lack of coordination in the philanthropic sector is an issue, but it is often more a function of bureaucracy and personalities than a sense of competition or hostility.

## Knowledge Creation Case Study: Anne E. Casey in East Baltimore, Maryland

The Anne E. Casey Foundation work in East Baltimore demonstrates the power of a philanthropy to generate knowledge in order to drive urban revitalization. Beginning in 2001, the Anne E. Casey dedicated attention and resources to a divested area of Baltimore, Maryland, which was facing all of the challenges related to vacancy, crime, and low quality services described in the earlier sections (Brophy & Waldron, 2014). Noting the persistent challenges facing the neighborhood, Casey determined that not only would they need to provide significant capital to enable the work of local nonprofits, there would also need to be new ideas brought to bear for the non-profit, public, and private sectors.

Specifically, Casey, and other philanthropies, began by paying for a urban planning study in order to collect data and establish a unified plan to guide the work of the city and other organizations and see how the work in East Baltimore interfaced with work in other parts of the city (Brophy & Waldron, 2014). Beyond being an investment in planning, the work was intended to elevate new ideas for how different organization might work together and identify what resources would be necessary to complete the work. Without this investment from philanthropy, the city could not have afforded the study and organizations would have continued to work in siloes and not generate the comprehensive revitalization they were all seeking.

Once a general plan was set, Casey dedicated its own capital towards developing knowledge around how to equitably include the community in the revitalization process. The foundation paid for the development of protocols related to relocating residents in order to assess what would allow for physical rehabilitation while ensuring that residents could benefit. This resulted in financial benefits provided to relocated families as well as specific, custom family counseling

to help each individual and family best benefit from the revitalization efforts. Not only did Casey contribute its capital towards developing this plan, which later partners would follow, but they also provided their own capital to enable it (Brophy & Waldron, 2014). The foundation also used its own capital, mainly through the dedication of staff time, to develop community engagement processes and plans to bring community voice into the process in novel ways so that local residents could shape the physical and economic future of the neighborhood (Brophy & Waldron, 2014).

Once the plans were in place, Casey set to work in the neighborhood, partnering with the local community and local institutions to build new housing, develop a K-8 school, provide early childhood education, and more. Throughout this, Casey took the position of a thought leader and while it was always deliberately open to the ideas and wishes of the community, the foundation knew that “business as usual” would not produce new solutions. Therefore they decided to use their own resources and staff time to develop new ideas for how to revitalize the area and, importantly, new ideas and strategies for financing this redevelopment effort (Brophy & Waldron, 2014). These efforts primarily involved identifying and testing new ways of structuring capital deals to support redevelopment. For example, for a Johns Hopkins graduate student housing, Casey provided recoverable grants for a temporary cash escrow to help the university secure traditional funding, for some city-driven community improvements, Casey bought non-marketable tax-increment-financing bonds from Baltimore, and for a local early childhood center Casey provided grants while also providing technical assistance to help the project secure tax credits and external loans (Brophy & Waldron, 2014). Part this variation was driven by the unique needs of different parts of the project, but the variety of structures was also part of a deliberate desire to test new ways of working and experiment.

As a result of testing these various financing structures, Casey first of all was able to demonstrate the possibility of innovative capital structures. This might inspire future entities engaged in urban redevelopment to think beyond typical grants and loans and also can provide a precedent for foundation boards and leaders who might be wary of untested methods. Secondly, and highly relevant to the current tax reform, Casey was able to determine that across projects, tax credits and tax-exempt financing were essential to the project and the urban revitalization work would not have been possible without those tools (Brophy & Waldron, 2014). Not only is this knowledge helpful to inform discussions of tax reform, it is a powerful reminder to other organizations to be sure to understand the benefits that tax credits and tax-exempt financing can confer on a project. Casey also saw across transactions the need for a strong, creditworthy institution to backstop the work – which may reinforce to community development organizations that they cannot do their work alone and also challenge them to realize the need for large, institutional partners whom they may not readily engage for fear of “selling out” to corporate or institutional interests (Martinez-Cosio & Bussell, 2013; Lipman, 2015). Finally, Casey was able to elevate that any party entering into innovative financing must be patient and willing to be both transparent and trusting. This work was not easy and is not easy, and Casey’s knowledge generation is able to help other foundations and stakeholders avoid engaging in a situation which they are unprepared for in terms of timing and/or temperament.

As with grants, philanthropy efforts in knowledge creation also have aspirational goals to catalyze change beyond the immediate area (Van Meter, 2017; Rush, 2017). For Casey, this meant systematically documenting their work during the East Baltimore revitalization work and creating a case study from over a decade of thought leadership, grant making, and creative investing in urban revitalization. By publishing the case study and sharing the knowledge

broadly, the foundation hoped that its capital investment in generating the ideas as well as in documenting and publishing the lessons learned would benefit future urban revitalization efforts elsewhere (Brophy & Waldron, 2014). Making the details of the revitalization open and being honest about challenges that the efforts faced was in part enabled by the fact that Casey was a philanthropy and not another sector. The public sector might have been reluctant to admit some of the challenges (and “wasted” money) experienced in the course of the project or to invest in content development to promote the lessons learned from the project and the private sector would not have the incentive to share the financial details of their work. Admittedly, the Casey Foundation, under different leadership, also might not have been as open with their knowledge. However, since the project was meant not only to benefit Baltimore, but to generate knowledge about new ways of working in urban neighborhoods, Anne E. Casey had both the desire and capacity to share their thought leadership and save future philanthropies, governments, and organizations the time and resources of developing those strategies and learning those lessons themselves (Brophy & Waldron, 2014; Fleishman, 2007).

## Leadership Capital in Urban Revitalization

### Overview of leadership

Finishing up Rip Rapson's framework is the importance of talent for urban revitalization. Even if there are solutions to the challenges facing a community and capital to pay for the implementation of the ideas, nothing can happen without individuals doing the work. And those individuals must have the skills, experience, and time to effectively lead and implement urban revitalization efforts.

Philanthropy can play a powerful role regarding talent and leadership in urban revitalization. Broadly speaking, this can be by developing and supporting external leaders or by playing the role of a leader in urban revitalization. In both instances, the foundation's capital is at stake. In the former, it is the foundation's direct monetary capital which staff controls through deciding where and how to invest. In the latter is the capital that has already been invested in the foundation staff, through salaries, benefits, and training which staff directs through their use of their own time.

Regarding external leaders, foundations are in a position to either bring experienced, talented leaders to work on an issue or to help individuals who are working in a neighborhood on urban revitalization issues develop the skills and gain the experience needed to be successful. For established leaders, Philanthropy can use its prestige and established network to identify possible leaders and attract them to an issue (Fleishman, 2007; Coletta, 2017). While a leader in urban redevelopment may not be intimately familiar with a particular neighborhood or non-profit, and consequently may not eagerly respond to outreach from that organization, if a large, national foundation were to reach out, that may attract more attention. Philanthropy can also fund,

through a grant, a position for these leaders either with the local government or with a local non-profit. This differs from the grants mentioned above in that the philanthropy may be playing a much more active role than simply writing the check that provides for an individual's salary. In the example of Baltimore Corps, for example, the Straus Foundation and Aspen Institute Franklin Project Summit on National Service provided capital for jobs, but also funded a program to provide specific training for the applicants and spent time and capital on working with local leaders to get them to accept the "external" hires (FAQ, 2017; Harris, 2017).

For leadership development of existing individuals, there also are several approaches a philanthropy can take. The first, and most basic, would be to provide a professional development grant to organizations – that is to offer and provide a portion of grant dollars to allow the organization to pay for conferences, classes, and coaching for its staff, and particularly for its leadership. Less purely grant-based would be to host or sponsor a training for staff involved with neighborhood revitalization. Rather than using capital to pay for grantees' tuition or admission, the foundation can use capital to rent space, hire facilitators, and bring grantees in to benefit from training. As with the knowledge generation role that foundations can play, philanthropies are well suited to play this role since they are perceived as more neutral than a private organization might and also the benefits are much more distributed and accessible than an expensive private seminar might be.

In addition, and alongside the role of philanthropy to develop and support leaders, philanthropy can very powerfully play the role of a leader in urban development projects (Coletta, 2017; Fleishman, 2007; Abariotes, 2017). This "philanthropy as leader" can be challenging, particularly in light of some of the critiques of philanthropy discussed earlier, especially the lack

of accountability. However, it may at times be necessarily, particularly when leadership is absent or ineffective in an area in need of revitalization.

It must be noted here that this role does require a particular set of circumstances which will not be present in many scenarios. Firstly, the philanthropy almost certain must have a local presence. Being headquartered in a focus city, or at least having an office there, is nearly essential. While it may be possible for a foundation who has done work from afar in a place to help with some coordination, cases of philanthropic leadership consistently involve foundations that are physically rooted in a place (Martinez-Cosio & Bussell, 2013; Rapson, Planning Session for National Initiative on Shared Prosperity in Cities, 2017). Having a physical presence is critical for a few reasons. For one, at a basic level, it facilitates the meetings and exchanges that must take place if the philanthropy is to lead – rather than relying on travel plans and conference calls, the philanthropy can lead through in-person meetings and regular site visits which would be impossible if staff were remote. Furthermore, the local nature of the philanthropy, and its leaders and staff, gives the foundation legitimacy as a leader. Since the foundation, and those who lead it and work for it, live near or in the community, they can be expected to have a better sense of the local realities than would an outsider. Furthermore, they have a more clear personal stake in the work since this is their home and the stakeholders are members of their community – at least at a metropolitan level.

Secondly, there must be a power dynamic in the space that allows for philanthropy to step into a leadership role. If there are already powerful, vocal leaders in the community, be it from business, government, religious groups, non profits, or some other realm, it may be difficult, and in fact counter productive, for philanthropy to try to assert itself. Or, if there is no leader, but multiple organizations are working on different efforts and are already fully dedicated to their



work and approach, it may prove an inefficient and unfruitful use of time and resources for philanthropy to try to try to coordinate the work. However, if there are multiple actors who are generally working towards similar goals but are facing challenges of sequencing, coordination, and alignment, it may be that philanthropy can be a helpful leader through one of the methods to be discussed.

Finally, the philanthropy must have the leadership credibility both in terms of its institutional reputation and its actual human leadership. Even if there is a need for a philanthropic leader, a foundation with a nascent reputation, or worse, a tarnished reputation in the community will struggle to fill that role. Other organizations will be unlikely to come to the table and listen to an organization, however “neutral” it may present itself, which has either an unproven or problematic track record. Beyond this institutional aspect of leadership, people matter too. The philanthropic leader, whether or not he or she is the head of the philanthropy, must be an individual who possesses the leadership and political skills to navigate the environment and get the parties to work together. This individual leadership will be essential since the actual work of leader will take the form of individual conversations, negotiations, and discussions – all of which depend on an individual’s capabilities and reputation. This is true for all the leadership roles that philanthropy can play institutionally.

The first type of leadership role philanthropy can play is that of a convener. Because of the institutional credibility of a foundation, its perceived neutrality and benevolence, and its capital, philanthropy is able to literally bring people together and frame a conversation for the group. While other institutions may be able to do this too, foundations are particularly adept since participants can join without appearing to support a particular politician or private interest. Philanthropy is also able to sponsor compelling events, without the public pressure to use

taxpayer dollars modestly or private sector concerns about extravagant spending without a clear return. This means that philanthropy can pay to get people in a room who otherwise might not meet and discuss issues. However, since philanthropy is the host of the event and attendees may want to stay on positive terms with the philanthropy, members are not always honest about the true needs and challenges facing a community or organization (Abariotes, 2017).

When gathering individuals into a space and enabling a conversation about a vision and plan for urban revitalization is insufficient, philanthropy may need to take on an even more active role in being a visionary for the urban revitalization effort. In this mode, philanthropy, ideally with partners from the community and city, sets a plan for a neighborhood revitalization effort and then proceeds to deploy capital according to this plan. This involves not only strategic grant and investment making that support the plan but also working with partners and using foundation staff time and efforts to coordinate the specific activities of important stakeholders who may not actually be grantees (for example local businesses) (Abariotes, 2017; Martinez-Cosio & Bussell, 2013).

Another essential, but often overlooked leadership role that philanthropy can play is that of the storyteller or story coordinator. Once again, given philanthropy's appearance as benevolent and neutral, in addition to its privileged vantage point, philanthropy can be a valuable source of information about urban revitalization for the media and the general public. Since many philanthropies have more sophisticated communications and external relations staff than non-profits, philanthropy can strategically use its partnership with media outlets to create constructive narratives about neighborhood revitalization and dispel harmful ones. To some extent this is politics and spin – a foundation would do well to avoid a positive neighborhood revitalization project facing sudden political backlash over unfounded concerns of gentrification and

displacement. However, it is also important for foundations to firmly and appropriately ensure that stories are portrayed truthfully and helpfully. If there are issues the media wants to raise, that is fine, but since the partners on the ground will be so busy with the work that they do not have the time or resources to think about the overall story as easily as a philanthropy can, the Foundation can serve a critical role in helping direct media to the truth. Furthermore, philanthropy can elevate the voices of partners on the ground to raise awareness and bring attention to positive things going on in a neighborhood that local residents and nonprofits might not be able to attract on their own (Abariotes, 2017; Van Meter, 2017; Martinez-Cosio & Bussell, 2013).

Finally, due to the relatively high risk tolerance of foundations, they can play a leader in the sense that they can take the first step (Evans, 2017; Rush, 2017; Van Meter, 2017). Whether it is by making a grant, developing a PRI, or simply publishing a press release that they will be doing work in a particular neighborhood, philanthropy can send powerful signals by showing where it will be working. By taking this first step, philanthropy not only can draw attention to a specific area and its challenges, but may help other partners feel more comfortable being involved in that space. If a philanthropy has announced its commitment to an area, local non-profits can feel more certain that they will be supported, developers and business owners might be willing to make investments given the stability a foundation can provide, and city government may also be willing to spend additional resources to augment the work of the philanthropy and its non-governmental partners. Other philanthropies may also follow the lead of the first mover and, seeing that another large foundation has made a capital contribution, may be willing to put forth their own grant dollars or investment monies. This is particularly true for local, less sophisticated foundations whose staff and trustees may feel that they are better contributing money to a larger

pool of capital initiated by a national foundation rather than seeking their own independent projects (Rapson, Planning Session for National Initiative on Shared Prosperity in Cities, 2017).

## Leadership Case: LISC – Green Line in Minneapolis, Minnesota

The Green Line Expansion in Minneapolis – St. Paul, Minnesota is an excellent case of how philanthropy played a leadership role both project-specifically and city/region-specifically. Despite being “twins,” Minneapolis and St. Paul are two very separate, very different cities. Minneapolis has 81 neighborhoods and is led by a weak mayor system while St. Paul’s strong mayor leads 17 neighborhoods, and the Mississippi river seems to form not only a physical but also an ideological barrier between the two cities (Abariotes, 2017).

Nevertheless, in order to solve the challenges facing each city, a regional approach is essential. One cannot solve challenges related to affordable housing, transportation, education, or workforce development without looking at each of the two cities as well as the surrounding counties and suburban communities (Orfield, 2017). Philanthropy has played a major role in helping local institutions adopt a more comprehensive view and approach.

Specifically, philanthropy played a very strong role in the creation of the Green Line or Central Corridor – a light rail system linking downtown Minneapolis to downtown St. Paul (Abariotes, 2017). Multiple foundations, including the St. Paul Foundation, the Knight Foundation, and the McKnight Foundation, had independently been looking at issues related to the green line, but then decided to come together to share resources and attention in order to maximize their collective potential (Abariotes, 2017). By working together around a specific opportunity they were able to create a unified plan, strategically invest in community organizations, provide cohesive guidance to partners, amplify community voices, and attract major state and national resources to the project.

By playing a central leadership role, philanthropy was able to drive a broad range of community revitalization efforts which would have been inconceivable if any singular nonprofit or governmental agency had been at the helm. For example, they supported creative place making, affordable housing, small business development, and last mile transportation efforts all with clear linkages to the overall vision for the Green Line (Abariotes, 2017). The foundations also thought about impact and evaluation from the very outset of the project. They endowed the capacity to track impact at the Wilder Research Institute and developed criteria to track even before work began on the light rail. This ensured that even when the project was “complete” the foundations could learn about what aspects of the work were successful (so far it seems nearly all of them) and where there were challenges in order to inform future work in Minneapolis-St. Paul and in other cities with similar transportation infrastructure projects (Abariotes, 2017).

## Operational Capital in Urban Revitalization

While Rip Rapson's framework of "capital, ideas, and talent" (2017) is helpful for thinking about how a philanthropy might directly engage with urban revitalization, there are other ways philanthropy can be involved which are perhaps both less expected and more powerful than the project-based methods discussed above. All of these involve how the foundation uses its "every day" capital to boost urban revitalization efforts. Rather than looking at the decisions the program staff make about grants and investments and special initiatives, these are ways that the internal workings of a philanthropy can support urban revitalization.

First, a foundation can support urban revitalization through its physical location. By becoming an owner or a tenant of real estate in a neighborhood, a foundation can directly drive real regeneration. Not only do they fill some of the commercial space, but the employees and visitors to the foundation become customers of nearby businesses. The Wilson Foundation, for example, moved their headquarters to New Center in Detroit to help with the revitalization of that corridor and in the same city the Skillman Foundation chose to locate its offices in the Riverwalk area to help stabilize that project.

Secondly, a foundation can look at its hiring, procurement, and vendor practices to support urban revitalization. Foundations, like any entity, need to hire employees and outsource work that is not done in-house. If a foundation hires residents of disinvested neighborhoods, there are multiple benefits created. By having employees from a neighborhood in which it works, a foundation authentically and symbolically demonstrates a commitment to local voice and representation. Furthermore, the foundation as employer provides professional training, experience, and networking to residents who are able to secure a role, which may help accelerate and launch their own careers as foundation work would do for residents of other neighborhoods.

And finally, at the most basic level, employment provides a salary and benefits to at least a few members of the community – it may be of negligible impact to the local community, but it does mean a few local households have more financial stability than if the foundations' employees lived elsewhere.

As for vendors, whether it is caterers for events, temporary workers for special projects, or office supply providers, there are external businesses and individuals who profit from serving the foundation. Apart from some of the largest foundations, it is unlikely (and in fact undesirable) that a foundation's business operations would drive community business development. However, it may be helpful both symbolically and on the margins for the local community based businesses. A foundation can use this relationship to help drive urban revitalization if they are willing and able to strategically look at who are their vendors and which neighborhoods those vendors live and work in. Rather than working with national corporations, a philanthropy could support local businesses and individuals, bringing jobs and economic activity to underinvested neighborhoods, by contracting with businesses in those very spaces. If such businesses do not exist, philanthropy can be a perfect first customer given the flexibility and financial freedom philanthropy has, not to mention its mission. Furthermore, with grantees and partners on the ground, Philanthropy can shape the ecosystem in a powerful way.

Finally, a foundation can look at its endowment, its corpus, and see how that is involved in neighborhood redevelopment beyond MRIs and PRIs. With \$865 trillion existing in the endowments of US philanthropies (Foundation Data, 2017), that is a substantial amount of capital that could create powerful change if it were invested strategically. By putting that scale of capital into local businesses, real estate development, and infrastructure funding, a philanthropy could not only be achieving the required investment returns but could be supporting urban



revitalization by doing so. This would differ from MRIs and PRIs in that the investees may not directly be carrying out the work of the foundation and would not come from some dedicated MRI or PRI fund. Rather, in examining its investment portfolio and considering managers, a foundation could consider how to direct more funds towards geographies, even if the specific investments did not directly align with program and mission priorities. This is the entire premise of LOCUS, a Richmond, Virginia, intermediary which is working with foundations and other mission-driven organizations to invest their capital locally. LOCUS challenges philanthropies to use their corpus to invest in local organizations in order to “build more prosperous, vibrant communities” (Locus, 2017). In this way, LOCUS helps philanthropies directly impact local communities by providing capital and helping local individuals and businesses thrive.

For all of these operational approaches, a major consideration is that the philanthropy can only really do this where it is physically located and has limited opportunities to pursue this strategy relative to the previously discussed philanthropic roles. Consequently, this cannot be a core strategy for urban revitalization beyond a limited geography. Instead, it becomes a way to operationally support other urban revitalization work going on in a particular area. So while foundations should still primarily use their grant and PRI capital, knowledge development, and leadership to further urban revitalization, there is an opportunity when making operational decisions to see how those might support other strategies.

## Conclusion: Philanthropic Capital in Live6, Detroit

To conclude, and in order to ground the theory in this thesis to a real place, each tool will be considered as it might play a role in the Kresge Foundation's role in the urban revitalization of the Livernois-McNichols (Commonly known as Live6 due to McNichols also bearing the name "Six Mile Road") neighborhood of Detroit, Michigan. While each chapter discussed cases and examples of how tools have been used in projects around the country, Kresge's experience in Live6 will be a helpful case study to explore how different tools could come together in a specific area. This is chosen in part because the complexity of the area lends itself well to an exploration of different philanthropic tools, but also because the thesis author is involved with this work and will be able to actually test some of these ideas with Kresge staff who are working in real time on an urban revitalization project. This chapter will provide context for the area as well as for Kresge's involvement in the neighborhood.

The Kresge Foundation was founded in 1924 by Sebastian S. Kresge, CEO of S. S. Kresge Company, a retail discounter which eventually came to be known as K-Mart (Who We Are, 2017). At the time, Kresge's commission was grand and broad: "To promote human progress" (Who We Are, 2017). For the first 80 years of the Foundation's existence, the foundation pursued this mission through a "challenge grant" model for capital improvements (Rapson, Overview of Kresge's History, 2017). Following this model, Kresge would provide a sizeable amount of capital for projects, often on academic campuses, and then help the grantee develop a fundraising strategy to raise additional capital in order to build a library or dormitory or cafeteria or academic building. Over the years, Kresge developed some areas of expertise within arts and culture, higher education, health, environment, and Detroit – supporting grantees with capital challenge grants in those areas (Rapson, Overview of Kresge's History, 2017).

In the late 2000s, Kresge's board shifted their approach dramatically and ultimately abandoned the capital challenge grant format which had been the Foundation's bread-and-butter unto that point. Over the past decade, Kresge has shifted to a focus on "expanding opportunities in America's cities" – a strategy that fundamentally is about urban revitalization. Since that shift, Kresge has continued to refine and evolve its approach to supporting urban revitalization, particularly in its hometown of Detroit, Michigan (Who We Are, 2017).

Within Detroit, Kresge has been instrumental in the regeneration of the "core" Downtown and Midtown neighborhoods. As these areas have seen new businesses and residents arrive, there is increasing desire and pressure for more attention to be given to Detroit "neighborhoods" – that is the surrounding areas of Detroit which continue to face extreme divestment challenges. This is driven in no small part by a perception that the benefits of Midtown and Downtown have largely been to the benefit of newcomers rather than long-time "Detroiters." Kresge is seeking to be a leader in this effort, and Livernois-McNichols is one of the Foundation's priority areas (Rapson, Overview of Kresge's History, 2017).

The reason Live6 is a priority area is that it seems to be one of the areas where urban revitalization seems most doable and most sustainable. Furthermore, it could be a powerful "proof point" for how other neighborhoods in the city, and other similarly challenged neighborhoods in other cities, could redevelop in ways that benefit the local residents as well as needed newcomers (Rush, 2017). For much of Detroit's history, the area was a thriving mix of middle and upper class neighborhoods with strong retail corridors and anchor institutions. Over the past 50 years, disinvestment and neglect has diminished that fine legacy, although promising components still exist. Some of Detroit's most desirable and valuable neighborhoods – particularly the University District and Palmer Woods are in the area, still boasting a sizeable

amount of upper-middle and upper-class housing. Furthermore, the anchor institutions of the Detroit Country Club, University of Detroit-Mercy, and Marygrove College are all within the area. While the commercial corridor is largely vacant in much of the area, recent efforts to recreate the “fashion mile” along Livernois have generated a pocket of boutiques and restaurants (About, 2017).

In its approach to the area, Kresge hopes to create a sustainable neighborhood that offers jobs, education, recreation, and homes to current and new Detroiters. There is a very real desire to avoid displacement but at the same time an acknowledgement that the neighborhood cannot really thrive without new residents (Rush, 2017).

This area serves as a useful case study for how philanthropic capital can be used because of the complexity of the area, both physically and politically. The area is too large, and the needs too great, especially when one considers the much broader context of Detroit, for Kresge to simply make a singular grant to improve the situation. PRIs are interesting because there seems to be great economic potential for the area, but only if capital is made available. Furthermore, given some of the equity and displacement concerns that have emerged in Midtown and Downtown, there is a desire for capital partners who have a social mission and social goals as well as their own financial goals. With a range of neighborhoods, large academic institutions, and a boarded-up commercial corridor, there is great need for ideas in the area. And finally, there are capacity issues around talent which need to be addressed, as there are many deserving neighborhoods in Detroit, and while Live6 is compelling, everyone is stretched, and the people who are living there and involved are often already so busy with their existing jobs and responsibilities that it is unrealistic to expect that leadership and talent will emerge without some external influx of attention and capital.

## Knowledge Creation in Live6

For the Detroit project, Kresge has already used its capital for several knowledge creation initiatives. These knowledge creation efforts have in fact laid the groundwork for further engagement, since it helped Kresge identify Live6 as a priority area, understand the political and social landscape, and determine where to focus resources – both geographically and topically within the neighborhood. First, as described in the Knowledge Creation section, Kresge supported the Detroit Future City initiative. This was a city-wide effort involving the city planning department and putting community engagement at its core. Through this work, Kresge helped Detroit develop a city wide framework which can guide work at the Live6 level in a powerful way. It furthermore laid some of the ground work in terms of market analysis, community engagement, and asset documentation to shape neighborhood-specific strategies and provide an anchoring document to point to during efforts in the neighborhood.

Another project Kresge has been involved with is a regional transit plan. This plan extends beyond even Detroit, but lays out a plan for linking Detroit and the surrounding counties with their residential, commercial, and industrial centers in a more cohesive manner. No other entity had the political or financial capital to commission such a plan, and therefore Kresge was able to fill a void both by paying for the report and by hiring the lead consultant to drive the work and work across constituencies (Trudeau, 2017). This work does not directly impact the Live6 plan apart from the fact that it does help provide some indication of what future transit investments could come to the neighborhood so that plans and efforts to revitalize the community can take those investments into account.

Yet another knowledge creation program Kresge has been involved with is Hope Starts Here. This initiative, focused on early childhood education, was driven entirely by the Kellogg Foundation and Kresge, who recognized a need for improved services for young children and their families in Detroit. The two foundations engaged on a two-year process in which they assessed the landscape, engaged with community members, and ultimately developed recommendations for how the City of Detroit, local non-profits, local philanthropy, and other partners could develop local resources for children. This work elevated the need for neighborhood-based programs that can provide wrap-around services for students and their families. Consequently, a central part of the Live6 strategy has been bringing an early childhood center to the Marygrove campus (given some open areas on the campus and the campus's location), the design of which was informed entirely by the Hope Starts Here knowledge creation initiative.

Another way Kresge has used capital to generate ideas is the work with Civic Commons. In this project, Kresge worked with partners in five US cities, including Detroit, to reimagine how civic spaces could be engines of urban revitalization in new, exciting ways (Coletta, 2017). For Detroit, the Live6 neighborhood was specifically targeted as an area to focus on. In this way, Kresge was able to not only draw on the work from the Detroit plan but also intentionally include Live6's redevelopment activities on a national stage so that ideas from cities as far away as Philadelphia and Memphis could inform plans and activities for Livernois-McNichols. For example, based on some work in Chicago, the Live6 project has incorporated a desire to link anchor institutions through greenways. This is taking the form of a new park in the Fitzgerald neighborhood and the construction of paths tying the park to Marygrove and UDM. This helps tie these two anchor institutions to each other and to the neighborhood. By intentionally linking

these places, the Live6 work, informed by Civic Commons work elsewhere is trying to intentionally address some of the legacy urban design from the 1920s wherein academic institutions were constructed as walled, protected, separate institutions (Coletta, 2017; Rush, 2017). The signage, location, and design around these greenway connections will therefore emphasize the interdependence of the institutions, neighborhood, and nearby commercial corridor – tying the area together while providing a much-desired green amenity to the local residents.

As Kresge moves forward with Live6, it is worth noting a major goal of the Live6 work – serving as a model for urban revitalization in other places. First within Detroit and then later in other cities facing similar strategies, the lessons learned from Kresge’s work in Livernois-McNichols can inspire other work (Rush, 2017; Rapson, Overview of Kresge's History, 2017). By Kresge being involved and intentionally thinking about the lessons learned from the work, they are well positioned to steward this knowledge and ensure that it is useable by other organizations who are working on urban revitalization efforts. As this knowledge is shared, the risk of future projects will be reduced which can attract new energy, capital, and attention to previously hopeless situations, and hopefully lead to more effective and equitable urban redevelopment efforts.



## Leadership in Live6

Based in large part on the work it has done to identify challenges in the area and develop plans to address them, Kresge has already engaged in the leadership aspect for Live6's neighborhood revitalization in a multitude of ways already. Kresge has directly supported staff from Detroit and local non-profits. The Foundation is also in the process of identifying and hiring a project manager to oversee work at Marygrove – working for the college but as a Kresge employee.

Kresge has also directly played the role of a leader in the area. Working with partners, Kresge leadership has carefully monitored activities in the area by the city of Detroit, the anchor institutions, local non-profits, and residents. At appropriate times, Kresge has been a driving force in convening these stakeholders and, depending on the situation, creating the space where they can exchange ideas and plan, or by setting a vision for the area so that each stakeholder has a better sense of where and how they can fit into the broader redevelopment of the neighborhood.

Kresge's communication staff and senior leadership have also worked closely with local newspapers to ensure that attention is given on the work in Live6 and that the media has a reliable source so that it is not relying on the loudest voices. This leadership role with the media has proven very powerful since it also provides coverage (multiple meanings) for the local partners. Not only can their work be elevated, but Kresge can work with media to deflect possibly harmful or distracting stories that the local partners would not have the capacity to manage without taking significant resources away from their core work.

Finally, by focusing boldly in the Live6 area and cultivating relationships with other local and national organizations, Kresge has been able to attract additional attention and resources to the area. Foundations such as Knight, JPB, and Rockefeller have made financial contributions to



projects in the area and have publicly voiced support for the ongoing transformation in the neighborhood.

Moving forward, this use of capital may prove to be the most critical for the neighborhood. Without leadership, it is possible that the various stakeholders could work in uncoordinated siloes and not be supporting each other's work. Worse, if conflicts emerge over space and resources, the various partners could begin to work against each other. By spending staff time and committing Foundation capital to maintaining a space where exchange can occur between the groups and by serving as a situation monitor and media contact, Kresge is creating and preserving an environment in which all of the partners can focus on their specific part of the urban revitalization puzzle and boldly push ahead.

Additionally, beginning with anchor institutions such as Marygrove, it will be helpful to commission campus plans that extend beyond the impact on the immediate area – which would be out of scope for a normal university-initiative project. Kresge can also, by strategically being involved with local grants, help monitor local studies to help coordinate work so that there are not duplicative or conflicting work which could waste resources and frustrate local leaders and residents. And when challenges emerge for which an answer is unclear, Kresge is in a role where they can sponsor work to find a solution even if there is not clearly a grantee who would work on that project.

## Grants in Live6

Drawing on the findings from knowledge development, Kresge can deploy capital (in grants and PRIs) to help achieve the goals for the neighborhood. Grants already have played a role in the Kresge's strategy for the neighborhood, but certainly could be expanded further. Grant dollars have gone to create and sustain "Live6" – a local nonprofit akin to a Community Development Corporation (called Community Development Organizations or "C-DO"s in Detroit) that works with community members, anchor institutions, and the city of Detroit to focus resources and attention on what matters most to the Livernois-McNichols area (About, 2017). Grant dollars have also supported urban planning and design programs at University of Detroit-Mercy and arts and culture programming at Marygrove College. These grant dollars have supported the continual existence of these anchor institutions, which enrich the local community by attracting students to the area and providing jobs for faculty and staff. Furthermore, the specific programs the grants enable have been targeted to the local community – creating local plans and providing local programming for the enrichment of local residents and visitors.

In the future, grants could support additional work of non-profits who are serving the local businesses and residents. Beyond supporting the non-profits, grant dollars might also fund the building of new facilities that are needed in the area such as health clinics and early childhood education centers. Kresge grants could, likely through one of the non-profits, fund infrastructure improvement to make the area safer and more pleasant. Another role of grant dollars could be to help prevent some of the negative side effects of redevelopment in midtown and downtown from having downsides in Livernois-McNichols. Specifically, grant dollars, properly channeled, could help buy down interest rates for homeowners or provide services to local residents to help them avoid being displaced. The exact form of the necessary services would depend on the individual

resident – someone who was a renter would need different tools and have different options than a long time home owner, for example. But grant dollars could help individuals stabilize the neighborhood by remaining there even as new residents and businesses arrive. Furthermore, grant dollars in support of community organizing AND that provide resources that the community can direct would be powerful uses of grant capital in the area.

## PRIs in Live6

Along with grants, Kresge has already deployed capital via PRIs within Live6 where circumstances allowed. Most notably, Kresge provided a \$3M guaranty on a loan for Marygrove College. While this is not directly related to urban revitalization, it has an important link. Kresge staff believe that in order for the neighborhood to thrive, Marygrove must be a strong and enduring anchor. When the college began experiencing financial difficulty, there emerged a risk that a debtor might foreclose on them, and the school would potentially be forced out of business and abandoned, devastating the area. With a bank controlling the campus, it was unclear what the future would be, and the risk of losing the legacy of Marygrove was unacceptable to Kresge. Therefore, it was able to provide a multi-million dollar guarantee to a new bank to assume the debt for Marygrove. Restructuring this debt through grants would have been expensive and strategically unattractive to Kresge. However without Kresge's involvement, the college would not have been able to secure new financing, its debtors likely would have called the loan, the college would have folded, and the challenges facing Live6 might have become truly insurmountable – making it a compelling PRI option.

Looking ahead, there are many opportunities for PRIs in the area. Kresge could provide PRIs to developers working on projects that will help achieve the vision for the community. Kresge could also invest in local businesses either through an intermediary such as a community bank, or directly as an MRI. The area has long suffered from a dearth of financial institutions and would understandably be seen as a risky investment area for financial institutions. By providing investment dollars and guaranteeing the work of businesses and organizations on the ground, Kresge could address a market failure that threatens to perpetually hamper the ability of Live6 to genuinely become a revitalized neighborhood.

One area of particular promise would be a loan to a community health organization. Since there is a dearth of health services in the area, a clinic or other provider has already been identified as a need by the local community. Given its experience with human services organizations, Kresge could possibly enter into an investment structure with a community health provider and supply debt to construct and begin operations in a clinic. Revenue from Medicaid, insurance, government payments, and out of pocket payments would then provide the critical revenue stream to continue operations and pay back the loan.

## Operations in Live6

A discussion of how Kresge can impact Live6 would not be complete without a discussion of the Foundation's operations. Unfortunately, at this stage in the area's redevelopment, options are limited. Theoretically, Kresge could choose to locate some office space to the area, particularly the McNichols corridor, to help with the activation of the street and to provide customers for the few businesses that are starting to open in the area. However, this is likely unrealistic given the Foundation's existing footprint and planned expansion in Midtown Detroit. However, Kresge could encourage and financially enable grantees to set up space in the area (as Live6 has done). Though establishing formal, permanent office space is unrealistic, Kresge could seek out opportunities to host events in Live6. By using convening spaces at Marygrove, the University of Detroit Mercy, and emerging businesses along McNichols, Kresge could increase the energy in the area, even if momentarily, and also provide some helpful revenue to emerging businesses.

Once more businesses are established in the area, Kresge should seek out opportunities to transact with them. If local restaurants could cater Foundation events, UDM or Marygrove could conduct studies for the Foundation, or local businesses could provide services to the Foundation, that could serve as a powerful symbol of Kresge's commitment to the people of Live6 and provide additional revenue and experience to those local institutions and individuals.



## Final thoughts

In Live6 and in any neighborhood, the complexities of urban revitalization efforts cannot be solved by any one person or any one organization. Any sustainable effort will require involvement by private, public, and social sector leaders. Philanthropy can also play an outsized role in urban redevelopment work, and not only by serving as a major “piggy bank” to the initiative.

This thesis has laid out some of the ways philanthropy can be involved with urban revitalization. Surely more strategies and tools are yet to be discovered and tested and refined. There is no one answer to the challenges facing America’s urban neighborhoods, although philanthropy can surely be a powerful partner. For anyone working on these issues, whether as a philanthropist, member of government, local business leader, local community leader, or community member, understanding the role philanthropy can play can be a powerful way to accelerate and strengthen efforts. This may require teaching philanthropy more about itself. But coalitions, led and funded by creative philanthropic capital truly have the possibility to bring about the revitalization of urban neighborhoods across the country.

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