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ALTERNATIVE FINANCING IN MOUNT CARMEL

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Prepared for Geography 218 Course
Spring 2016

PART I: INTRODUCTION TO ALTERNATIVE FINANCE

Introduction to Problem

Over the course of our visit and subsequent meeting with representatives of Mt. Carmel, we observed that one of the main problems facing the town is an inability to raise money to help fix the vacant housing situation or to help grow local businesses. One of the things that town representatives conveyed was that the inability to raise taxes was leading to a lack of funds to pay for a variety of expenses. These include buying land from absentee landlords and paying for the demolition of condemned houses, among others. When researching what Mt. Carmel could do to help themselves financially without having to convince voters to raise taxes, we came across the idea of a donor-advised fund. The following pages will explain what a donor-advised fund is, how to execute the creation of such a fund, and what the benefits of creating the fund would be to both the town government and its residents.

Examples of Alternative Finance

Many communities use various forms of alternative finance models to raise money without raising taxes. For example, there is the Chicago Microlending Institute (CMI) which deploys loans to new and existing small businesses in low and moderate income communities throughout Chicago. Many of Chicago's impoverished neighborhoods have unemployment rates exceeding 20%. The microlending institute helps to mitigate the effects of high unemployment by giving targeting loans to the city's small businesses.

Another example is the New York Community Trust Fund; this is an organization in which New Yorkers set up charitable funds that make grants for a wide range of charitable activities that are central to the well-being of the city. The New York Community Trust created the first donor-advised fund in 1931. Donor-advised funds have since become the fastest growing charitable funds in the United States with more than 175, 000 donor-advised accounts holding over \$37 billion in assets.

A third example is the Philadelphia Housing Trust Fund, which was founded in 2005 to provide resources for the development of new homes, the preservation and repair of existing homes, and the prevention of homelessness. An oversight board comprised of public officials and community representatives oversees the allocation of the money. The money comes from various governmental agencies. These include dedicating some of the existing housing taxes, such as the real estate transfer tax and mortgage or deed filing taxes, to the fund and dedicating a portion of the Pennsylvania Housing and Redevelopment Assistance money that Philadelphia receives to the fund. Since the inception of the fund, more than 1,000 homes have been built and over 1,500 homes have been renovated. It has also supported over 2,000 construction jobs.

While the fund in Mt. Carmel will operate on a smaller scale than the funds in these models, the ideas are the same. Implementing an alternative financing model that can raise money to fix up the community or give loans to small businesses can motivate residents to get involved and make their town a better place to live. An example of a smaller community using a housing trust fund can be found on Bainbridge Island, Washington. Housing Resources

Bainbridge is a community land trust that is a non-profit organization aiming to keep permanent affordable housing in a town with rising housing prices. The group purchases land and accepts donated land, and holds that land in a trust for the community and its residents. Although the land increases in value over time, the Trust continues to rent or sell the properties at low costs while maintaining ownership over the land that the property resides on. Those who purchase homes sign a contract mandating that if they re-sell the house it must be based off of the trust's formula as opposed to market value.

Links to programs:

- <http://www.cnigroup.org/microlending.html>
- <http://www.nycommunitytrust.org/>
- <http://philadelphiahousingtrustfund.org/>
- <http://www.housingresourcesbi.org/>

What is a Donor-Advised Fund?

- A Donor-Advised Fund is a charitable financial vehicle that is similar to a community public trust fund. Individuals are allowed to donate money or assets to a public fund. The fund can then donate the money through grants to different public charities. These charities can use the money for any project or good they see fit

Why This Fund Is Necessary

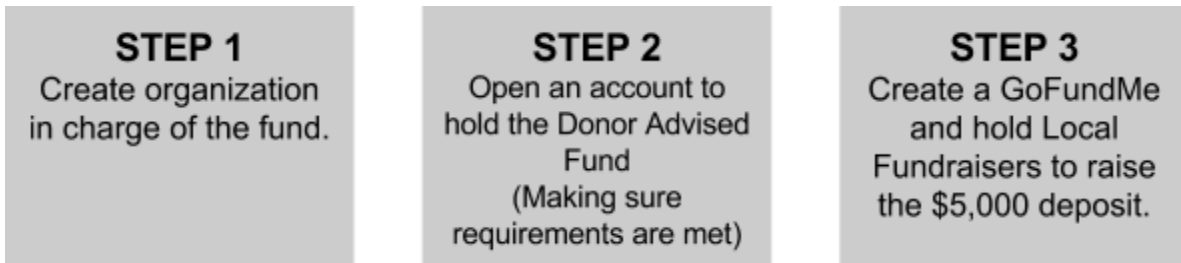
- The town has been unable to raise the necessary money required to mend the vacant or destroyed housing situation
- Despite the encouragement of some town representatives, voters have been unwilling to raise taxes in order to raise money that could be used for these purposes
- In order to make the town a more resident-friendly place to live and a place in which young residents could see a future, it is necessary that the town be able to raise money in an alternate way

Why a Donor Advised Fund Would Work For You

- It is a way for Mount Carmel to raise money to pay for whatever they deem necessary without raising taxes
- It is a fund that anybody can donate to, regardless of where they currently live
- It provides tax breaks to anybody who donates, which could entice those who have a relationship with the town but might no longer live there
- It requires a relatively small amount of money to start the fund, and donations of any amount are welcome
- You can reinvest the money with a financial adviser in order to grow the fund regardless of the flow of new money coming in

PART II: HOW TO START FUND

Quick Overview on How To Start a Donor-Advised Fund



Getting Started:

(STEP 1) Create the organization in charge of the overall fund.

- There are many options for this and could be anyone, group or organization in Mount Carmel that would be able to effectively manage the fund.

(STEP 2) Open the account for the Donor Advised Fund

Requirements for Starting Fund:

1. U.S. permanent resident address, Social Security number, date of birth and contact information for each person listed on account
2. A signature for each account holder at the end of the application
3. Entails standard background check
4. Account can be opened by organization, family or individual
5. Requires assignment of successors

Application can be done online:

- <https://content.schwab.com/web/retail/public/charitable/online/index.html#g1-1>

Application Form:

- <http://www.schwabcharitable.org/public/file?cmsid=P-5251078&cv0>

Depositing Information

- Requires initial minimum deposit of \$5,000
- Additional minimum contributions of \$500
- Donations can be in the form of cash, checks, securities and wire transfers
- Public fund so anyone can donate securities or assets to fund

(STEP 3) Options for Raising the Initial Deposit of \$5,000

Starting a GoFundMe or Kickstarter

-These are both websites that simply require you to create an account for free and describe your reason for requesting donations. Anyone can donate to the fund and the cause can be shared on many different social media platforms in order to spread the word.

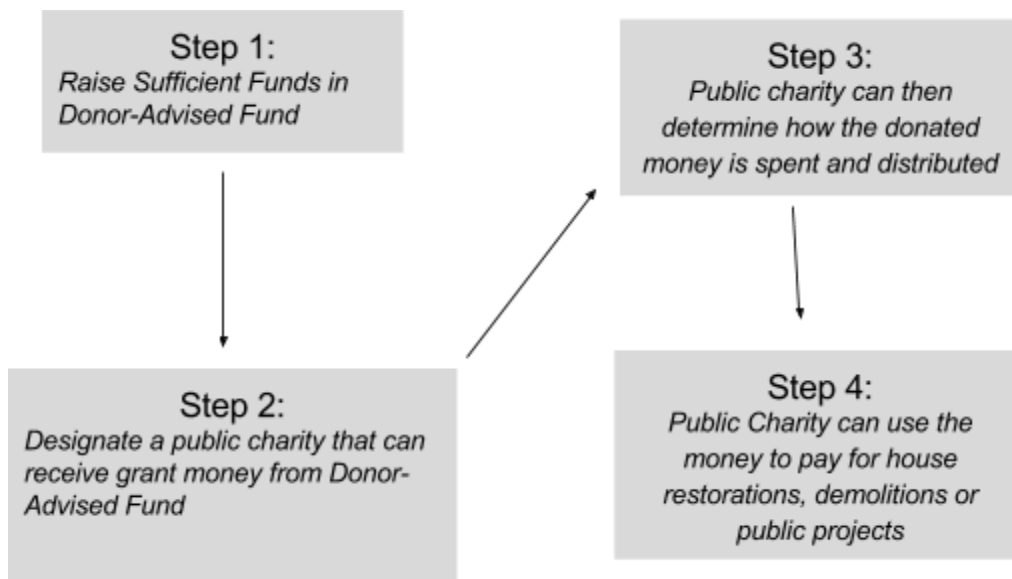
-GoFundMe is a service that helps individuals and communities raise money through donations for almost any desired cause. It would be a strong option for raising the initial \$5,000 deposit needed.

Fundraising Events within the Community (ex. 5K Runs, Community Garden)

-Local fundraising such as community 5K runs and other events would not only be a great way to raise the initial \$5,000 deposit but would also kickstart the communal involvement and spread the word of the donor advised fund.

PART III: HOW TO MANAGE AND DISTRIBUTE THE MONEY

Quick Overview on How Donor-Advised Fund distributes money



(STEP 1) Raise Sufficient Funds - see previous section for detailed description

(STEP 2) How the Donor-Advised Fund Distributes Money....

- The DAF does not directly distribute funds to projects
Instead it lends grants and donations to public charities that are IRS-approved 501 ©(3).
- The public charities are the organizations that receive these grants and can then distribute the money. These organizations then distribute the money to any individual, organization or public project they desire
- Important that there is synergy between donor-advised fund and charity so that money is going to mutually agreed project

(STEP 2) What Existing Public Charities Could Receive the Grants from the Donor-Advised Fund....

- Mount Carmel Downtown, Inc.
- Mother Maria Kaupas Center

(STEP 3) Distributing the fund

- The fund can recommend grants of \$50 or more to any IRS-approved 501 (c)(3) public charity.

Alternative Public Charities that could be created from the funds....

- Another alternative could be the town creating its own 501 ©(3) public charity to distribute fund

- An example could be the creation of a Housing Crisis Charity that can lend money to the town for house demolitions or restorations.

(STEP 4) What Projects the Money Could be used towards...

- House Demolitions
- House Restorations
- Help Local Businesses with microloans
- Additional Public Projects
- Grant Recommendation Form:
http://www.schwabcharitable.org/public/file/P5251068/Recommend_a_Grant_to_Charity.pdf

PART IV: ADMINISTRATIVE AND INVESTMENT POSSIBILITIES

Important Disclaimer*

- Not every Donor-Advised Fund offers the investment options associated with the Schwab Model.
- What the Schwab Model COULD Offer...

Administrative and Investment Options

- Select from a pool of 14 different investment options.
- Advisors must be Schwab approved and typically charges up to a 1% annual fee
- Schwab Charges .6% fee for fund

Tax Benefits

- Donations can count towards tax deductions
- Avoids paying capital gains taxes
- Fund is tax-free

Additional Questions/Concerns can be answered at Schwab Charitable:

(1800)-746-6216

<http://www.schwabcharitable.org/public/charitable/home>

http://www.schwabcharitable.org/public/charitable/donor_advised_funds

PART V: POTENTIAL PROBLEMS

- **Many citizens in Mount Carmel may lack a credit history.**
 - Therefore, it is essential that the organization chosen to manage the fund makes sure the money is going towards the correct projects and is cautious with where they invest the money. Before lending money to individuals, they should have to pass through a process that guarantees the money is being used for the agreed purpose.

- **In order to have success with this fund it will require a great deal of communal involvement from people within the town.**
 - The town will need to encourage citizens to participate and get involved in the fund as well as remain loyal towards the fund's direction. In order to do this the town can propose the goals of the fund and pick specific projects that the money will go towards, such as improving housing or local businesses. By doing this it will encourage people to be more invested in the fund and donors can be assured that their money is going towards aspects of the town that they are interested in improving.

- **Managing the needs and direction of the fund may be challenging for the organization in charge. There are many different purposes that the fund could be used for but it will be important to stay focused on the centralized plans in order to keep donors interested and keep the progress of the fund on course towards its goals.**
 - In order to ensure that the funds will be managed well and put towards the correct efforts it will be important to choose a charity or organization that has experience in managing such funds. The organization should have a set goal and decide on what exactly the best uses for the fund will be.