Investors for Entrepreneurial Ventures, *Insights from Republic County, Kansas*

Financial capital is foundational in community economic development. Creating and attracting financial capital is key to fueling not only entrepreneurial venture development but funding the very work of entrepreneurial ecosystem building and operation, and related community betterment investments. Robert Stowell, legacy leader from Ord, Nebraska, when asked what advice he would give to other communities, responded, "leadership, investment, and entrepreneurship."

Background and Introduction

This paper – **Investors for Entrepreneurial Ventures** – ***Insights from Republic County, Kansas*** – illustrates how additional financial capital can be mobilized from area wealth and used strategically to support:

1. Entrepreneurial Ecosystem Building and Operation
2. Venture Financing Including Equity Financing
3. Community Investments

Capital Sources for Entrepreneurial Ventures

Based on our field studies and work, there are five potential sources of capital for entrepreneurial ventures:

1. The Entrepreneurs – 3Fs – Family, Friends, and Fools
2. Banks or Credit Unions
3. Revolving Loan Funds or Gap Financing
4. LLC Investors
5. Charitable Impact Investing

In this paper, we explore LLC investors and charitable impact investing. Our ***Network Kansas Financial Capital System*** paper provides information on gap financing working with entrepreneur capital and banks, credit unions, and other financial institutions. Community-centered entrepreneurial ecosystems offering access to all five types of capital for ventures can stimulate and support more venture deal flow. Additionally, these deals can be structured on more risk-tolerant foundations contributing to increased entrepreneur and venture success.

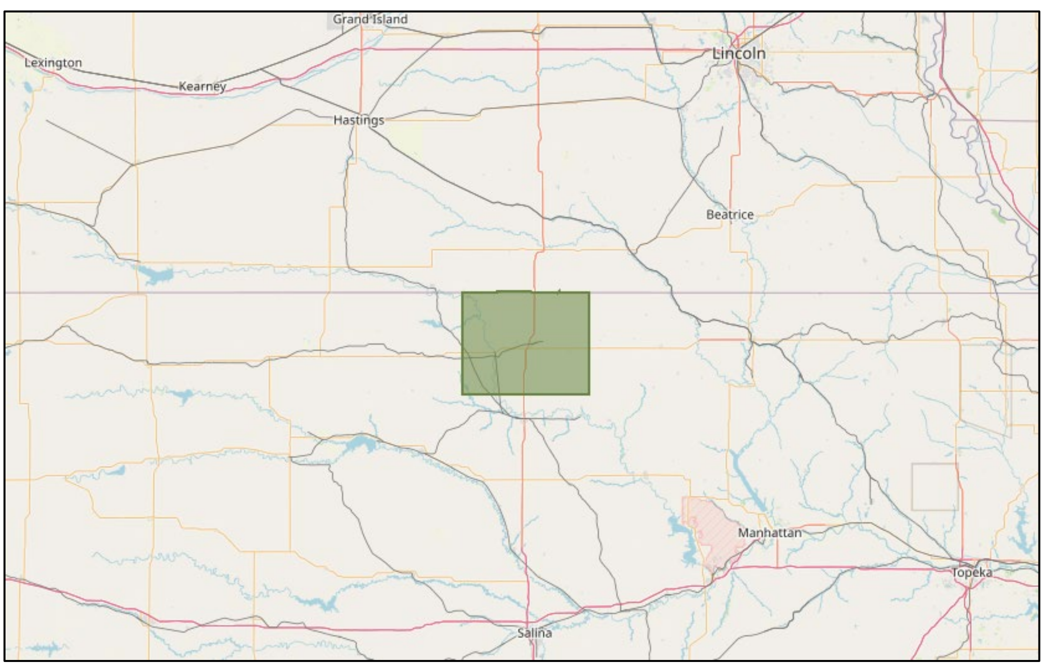
We illustrate sources of area wealth and financial capital that can be tapped to support entrepreneur-led community economic development. The next section provides a quick profile of Republic County, Kansas.

Republic County and its lead city of Belleville are among a string of counties beginning in the high plains of Colorado running all the way to the Mississippi River. These are the in-between counties bounded by Interstate 80 to the north and Interstate 70 to the south. By and large, these counties are farm and ranch dependent, peaked in population in the 1920s and 1930s, and have been experiencing depopulation since. For example, Republic County actually peaked in population in 1890 with just over 19,000 residents with a 2021 population of 4,787 residents. Stimulating economic renewal through entrepreneurship is the primary pathway to greater prosperity for this community and so many others like it.

About Republic County, Kansas

Republic County and its lead city of Belleville are located in extreme north-central Kansas situated along the Kansas and Nebraska state lines. U.S. 81 is a primary transportation route north and south connecting Republic County to York and Interstate 80 in the north and Salina and Interstate 70 in the south. U.S. 36 provides major east-west highway access. Republic County is rural and moderately isolated, being part of a band of rural counties from the Mississippi River in the east running all the way to the Colorado border in the west that is experiencing chronic and severe net outmigration and depopulation. The primary industry is production agriculture supplemented with some manufacturing activity.

Figure 1. Republic County, Belleville, and its Region



European-American settlement came quickly to Republic County [1]following the Civil War (1861-1865) with the first county elections held in 1868. The first U.S. Census posting of residents for the county was in 1870 with 1,281 residents counted. Republic County, like other Central Great Plains counties, boomed between 1870 and 1890, growing to its peak population of 19,002 residents recorded in the 1890 Census. Since 1890, Republic County has posted 13 continuous decades of net population decline. In 2020, the U.S. Census estimated 4,674 residents in the county. Figure 1 on the previous page situates Republic County in its region. Figure 2 below provides a quick community profile of Republic County.

Figure 2. Republic County Quick Profile

Indicator	2021 Data	2026 Estimated Data
Population	4,787	4,633
Households	2,199	2,127
Families	1,395	1,346
Median Age	53.0 Years	53.2 Years
Average Household Size	2.13 Persons	2.13 Persons
Median Household Income	$40,714	NA
Average Household Income	$50,990	NA
Median Household Net Worth	$155,113	NA
Average Household Net Worth	$466,424	NA
Incorporated Cities	Agenda, Belleville, Courtland, Cuba, Munden, Narka, Republic, and Scandia	
Unincorporated Communities	Harbine, Kackley, Norway, Rydal, Sheridahl, Talmo and Wayne	

Source: Esri, March 7, 2022

According to NetWork Kansas' *FY22 E-Community Status Report* since 2014 the Republic County E-Community has provided 14 gap financing loans to for-profit businesses with the following portfolio characteristics:

- Total Amount Loaned $480,495
- Average Loan Amount $36,961
- Average Loan Rate 3.89%
- Repayment Status: Comparative Statewide Values
    - Current 92% 55%
    - Paid in Full 8% 34%
    - Past Due 0% 3%
    - Failed 0% 7%
    - Deferred 0% 0%

With this context in mind relative to Republic County as a typical very rural community, the focus turns to how LLC Investors and Charitable Impact Investing can expand entrepreneur financing options and enhance deal quality.

[1] Wikipedia. March 7, 2022.

NetWork Kansas supports the E-Communities Partnership Program. Through this program, E-Communities have access to coaching support, gap financing funds, and board-certified programs. Republic County numbers as one of NetWork Kansas's E-Community partners. Collectively, Kansas' E-Communities and NetWork Kansas have empowered nearly one-half billion dollars in entrepreneurial venture flow. Most of this activity has occurred in just the past decade.

Republic County and Entrepreneur-Led Development

Republic County is a NetWork Kansas E-Community or recognized Entrepreneurial Community. This community is committed to entrepreneur-focused economic development through the provision of venture financing and technical assistance.

As is the case with all entrepreneur-focused community economic development, there is both challenge and opportunity in providing the funding necessary for robust, sustained, and transformative change. In addition to traditional funding sources (e.g., local government, banks, state, and federal programs, etc.) two unique and substantial funding sources (LLC Investors and Charitable Impact Investing) offer new sources of capital.

Figure 3. Two Universal and Locally Available Funding Sources

Resident Cash Accounts ***LLC Investor Capital Source***	**Resident Wealth** ***Charitable Impact Investing Capital Source***
In 2021 the average permanent household in Republic County held nearly $12,500 in checking, savings, and money market accounts. Combined, total "cash" accounts in Republic County totaled over $27.3 million. Under current conditions, these accounts generate very little interest or return on investment. In our rural Central Great Plains culture, they represent a "prudent" fiscal management strategy.	In 2021 Esri estimates that permanent residents in Republic County had $1.024 billion in household current net worth (i.e., assets minus liabilities). The vast majority of this wealth is held by the 140 households with $1 million or more in net worth (6.3% of the county's households). While most residents have the capacity to give to charity and probably do, higher-wealth households have the ability to make bigger gifts and engage in equity venture investing.

Source: Esri, March 7, 2022

These sources of local cash and household wealth (cash assets including checking, savings, and money market accounts are part of overall household current net worth) have the capacity to significantly increase sustainable funding for entrepreneurial ecosystem building and operation, venture financing including both impact investing and equity investing, and community betterment investments. Figure 4 provides an overview of the two financial capital applications of the assets summarized in Figure 3.

Figure 4. Capital for Entrepreneurial Communities

Ecosystem Building and Operation	Venture Financing
Robust and sustainable funding for entrepreneurial ecosystem building and operation is foundational to realizing desired transformative change in both a community's economy and society.	Ventures need financing to start and grow. Capital for financing ventures within an entrepreneurial ecosystem is core infrastructure and an accelerator for venture development.
Community Building Investment Growing an entrepreneurial economy requires a community where people want to live, create, work, and play. Tapping household wealth through both equity investing and charitable giving can support community-building investments ranging from downtown revitalization to affordable housing to recreational amenities to other quality of life essentials and desirables.	

The following illustrates what is possible with a "doable" wealth mobilization game plan using Republic County 2021 data.

Over $200,000 Annually for Ecosystem Building and Operation

Ecosystem Building and Operation. 2021 Republic County household net worth is conservatively estimated by Esri at $1.024 billion (likely under-estimates wealth associated with agricultural land and closely held family businesses). If just 0.5% of this wealth was gifted into community foundation endowments for entrepreneurial ecosystem building and operation, $5.1 million in permanent and forever endowment could be evolved over time. Assuming a 4% annual and sustained payout from this $5.1 million endowment, $204,000 could be generated to support ecosystem building and operation. Funding could be used to provide matching grants for advanced entrepreneur technical assistance, ecosystem building, staffing, and other entrepreneurial ecosystem operational activities.

Patient and Flexible Venture Financing

In lower density and higher cost markets – the case for much of rural America – there is a higher need for both patient and flexible venture financing. By patient capital, we mean that its sources are willing to wait for the venture to succeed before requiring payment and even return on investment like interest. By flexible capital, we mean terms and conditions that can be modified based on the development of the venture. Both LLC investor and charitable impact investing can provide a more patient and flexible financing source when compared to credit cards, bank loans, and even gap financing sources.

Equity Investments for Entrepreneurial Ventures. Higher net worth households tapping just "cash" accounts (i.e., checking, savings, and money market accounts) could provide significant equity investment into all three kinds of entrepreneurial ventures (see Figure 4 for details). If just 5% of the 2021 cash accounts value ($27,329,730) was leveraged for equity investments for entrepreneurial ventures nearly $1.4 million could become available. Assuming an average equity investment of $150,000 per deal, nine to 10 deals could be financed leveraging bank, personal, and gap financing. Typically, the equity portion of these venture deals is 5% to 15%. Over a decade 15 to 25 deals could be financed with the same 5% of cash account funds. A later section highlights a likely financing deal.

Figure 5. Three Kinds of Entrepreneurial Ventures

For-Profit Businesses	Nonprofit Establishments	Government Enterprises
Often owner capital, bank loans, and even gap financing are insufficient to make desired deals happen. Providing modest patient capital through equity investments can not only make more deals happen but create better deals with higher probabilities for success.	Rural community nonprofit establishments like health clinics, recreational facilities, and critical social services like food banks need capital for facilities, equipment, and operations. Equity investments can fund building and equipment, safely empowering deal flow.	Critically important community ventures from hospitals to recreational facilities to local parks contribute to our communities. While taxes support these activities, the use of patient equity capital can empower and enhance deals.

Impact Investing. If just 5% of household current net worth was given over time to a community foundation focusing on serving Republic County, about $51 million could capitalize both restricted (allowable uses directed by the donor) and unrestricted (use of the funds are left to the community's discretion) endowments could be created. Endowments under federal law are invested and managed in a way that these funds are inflation-protected and provide a predictable and forever stream of funding. With a sustainable 4% annual payout, these endowments valued at $51 million could generate over $2 million annually in "forever" funding.

Impacting investing is where a foundation allocates a portion of its endowments to local investing. Typically, the target amount is 5% of the corpus or the endowed value of funds. For this Republic County example, 5% of $51 million is $2.55 million. While shifting funds to impact investing will reduce charitable grant-making capacity, it can provide critical equity and loan financing resources for all three kinds of community ventures. Assuming a $10 to $1 deal flow leverage, this $2.55 million in impact investing (either equity or loan placements) could spur an additional $25.5 million in deal flow beyond the use of cash accounts discussed earlier.

Higher net worth individuals may choose to gift (based on tax advantages and estate planning) to support this work and/or use cash accounts to provide equity investments and/or loans through Limited Liability Corporations (LLCs).

Financial Packaging is a Core Capital Access Asset in Entrepreneurial Ecosystems

At e2 we recommend the first entrepreneurial hire be a person skilled and trained in resource networking a deal financial packaging. The networking of resources is a more obvious staff role where the networker identifies the need and wants of specific entrepreneurs and where possible connects them to the right resource at the right time and cost. Financial packaging requires more training and experience. As a financial packager, this community (or regional circuit rider) staff person works with both the entrepreneur and capital sources to build the funding necessary for a deal to occur whether it is a new startup, business transition, or growth venture.

Illustrations and actual stories are often helpful to better understand the potential of how various forms of capital can not only meet the financing needs of an entrepreneur but also support entrepreneurial ecosystem building and operation. At e2 we are committed to capturing and generating real-life stories and illustrations to empower other communities in the work of building entrepreneurial ecosystems.

Three Deal Flow Examples

To illustrate how various financing sources can be packaged to enable more and better deal flow, consider the following three examples rooted in ventures organized as for-profit businesses, nonprofit, and government enterprises.

A Local Main Street Business Transition

In our rural communities, dozens if not hundreds of locally owned and operated businesses provide both essential (e.g., grocery, lumber, plumber, hardware) and desirable (e.g., a great café, brewpub, clothing store, coffee shop, movie theater) goods and services. The normal life cycle of any business includes transitions from one generation to the next. In rural America, many of these great and important businesses do not transition but end up with a liquidation sale, closure, and loss of one more community main street type business.

Money and Mentoring

Having the right financing is foundational for new owners who are getting into the business. Succeeding in business often depends on having access to seasoned mentors who can advise around the art and science of successful rural businesses. In this illustration, rooted in actual case stories, the LLC investors not only provided capital but also critically important mentoring. These factors combined to create a bigger, better, lower risk investment, and a more successful business deal was empowered.

The first example is a historic courthouse square retail business. It started as a saddle and tack shop in the 1880s. More recently it evolved into a sporting goods and clothing store. Current owners wanted to move on. A young couple working in the business wanted to buy it. They did not have sufficient equity to make the deal work. The bank would only finance about 60% of the deal. Even with community-sponsored gap financing loans (20% of the deal), there was still a 20% gap. The couples' families could provide some equity into the deal, but there would be no room for error creating a thin and higher risk deal for all funders. In this case, five local higher net worth families formed an LLC to provide the remaining 20%. They took an option to buy the building where this business was located with bank participation and in turn leased it back to the new owners. This equity investment was relatively secure with a fixed asset as collateral.

Over a matter of a few years, the new owners bought the building, providing an exit strategy for the investors, and payback for the bank loan. Packaging the right capital along with mentoring support can often ensure a lower risk of failure and more optimal success.

A Nonprofit YMCA Recreational Facility

In the relatively thin markets that characterize much of rural America and are clearly the reality in Republic County, many essential and desirable ventures are organized as nonprofits and/or community ventures. In this example, the community wants to build and operate a state-of-the-art recreational facility in partnership with the YMCA organization. Such facilities are not only foundational for residents' health and well-being but contribute to the quality of life that attracts, develops, and retains residents.

This example assumes that the overall deal is worth $2 million – $1 million for new facilities or capital construction and $1 million for a permanent endowment to support maintenance and operations.

In this case multiple financing sources can be employed as follows:

- $1 million in charitable gifts to create the operating and maintenance endowment.
- $250,000 bank loan paid back by member fees and other YMCA revenues.
- $500,000 in LLC equity investments amortized over 10 years.
- $250,000 in charitable gifts with naming rights.

These kinds of recreational facilities, even in relatively smaller rural communities, can generate annual revenues through memberships, fees, and events. But they cannot cover all the new facility costs, future maintenance, and operating costs. Charitable gifts in rural communities for facilities and amenities like recreation centers are well-established. Employment of bank financing tied to fixed asset collateral for a portion of the new facilities is generally doable. The missing piece that makes this work financially sustainable is the patient LLC equity investments. The LLC investors have the following needs:

- They want their capital back.
- They need a reasonable exit strategy for recouping their investment.
- They want a small return on investment if possible.
- They need low or reasonable risk of losing their capital.

More importantly these investors are using funds that have not been generating much income. They can be patient and allow the precise exit strategy to evolve as the new facility gets up and running and more reliable revenue predictions can be made. Flexibility as the "last in" investor is critical in making deals like this happen.

Rural Communities and Nonprofit Community Ventures

In rural American communities, like urban distressed communities, the role of nonprofit community ventures is foundational. Free market-supported for-profit ventures may not be viable in rural America's low-density and high-cost markets. But community ventures, whether organized as nonprofits, governmental enterprises, or hybrid ventures, can often enable a critical community need or want to be viable and sustainable. These ventures must generate revenues, fund staff, and cover facility costs just as for-profit businesses must. But they can operate on less revenue making them viable when for-profit businesses cannot make it.

The final illustration outlines funding for a government-owned medical clinic.

A Government-Owned Medical Clinic

A growing number of rural communities in rural America are "health care deserts," lacking both essential and desirable health care services. Local governments mobilize on behalf of residents to secure health care providers from dentists to general practice health providers. These providers generally located in nearby communities are often willing to offer services on a regular basis in the community, but they are unwilling to provide the funding for a facility and equipment essential for a medical clinic.

In this illustration the capitalization game plan might look like this (based on actual cases):

- The city buys a local vacant building, rehabilitates it into a medical clinic based on the needs of the service providers, and leases it back to the providers on acceptable terms.
- Medical equipment is expensive and the visiting health care providers are unwilling to fund this cost. To meet this deal gap, a group of local higher net worth families forms an LLC investment group to purchase the needed equipment and lease it back to the providers on favorable terms, reducing provider risk.
- As part of the service provider agreement, once minimum revenues are met, a portion of the additional revenues are used to amortize these equipment-related equity investments. The providers may or may not purchase the building ensuring it stays in community control.

The next section provides an in-depth look at **LLC Investor Groups.** The following terminology is commonly used in capital systems discussions and will help set the stage for the details provided in the **LLC Investor Groups** section.

Venture capitalists pursue potential high-growth ventures with corresponding large-scale equity investments. They are seeking very high returns on investment and a clear and quick schedule for exiting the deal. For most of rural America, venture capital is not a solution because the deal flow is relatively small and the potential for quick and high yield exits is equally small.

Angel investor groups typically do smaller deals and may have either an economic sector and/or community focus. Typically, angel investors are seeking above-average returns on investment as well as scheduled exit plans. Angels can have multiple bottom lines including not only getting their capital back and a determined return on investment, but also a desire to grow local ventures and the community's economy.

LLC Investor Groups can be comparable to angel investment groups with respect to deal size, return, and exit strategies. However, rural America needs those who are more focused on community enrichment and betterment than the return on capital. These investors want their capital back, but often do not seek market rate, let alone above average rates of return, and can be much more flexible with respect to their exit strategies. This strong public versus private interest enables venture deals that otherwise would not be viable and done.

LLC Investor Groups are explored in more depth in the following section.

LLC stands for Limited Liability Companies. This widely recognized and used legal construct is employed to create certain kinds of investors. Wikipedia defines an LLC (limited liability company) in the United States as a specific form of a private limited company. "It is a business structure that can combine the pass-through taxation of a partnership or sole proprietorship with the limited liability of a corporation."

LLC Investor Groups

Research in the field does not provide well documented and profiled LLC Investor Groups. Our learning about these groups is rooted in actual field experience in the rural Central Great Plains. The **Ord Story Collection** includes a Business Investing Club and LLC investors as one of the attributes of its high-performing entrepreneurial ecosystem. In this section, we attempt to provide a framework of promising design elements and practices that can be replicated in other rural communities.

The following are the promising design elements and practices of functional LLC Investor Groups based on our field studies and work:

- Existence of an Entrepreneurial Ecosystem
- Capital Access within the Entrepreneurial Ecosystem
- Identification and Engagement of Higher Net Worth Households and Potential Investors
- Pro-Active Entrepreneur Engagement
- Financial Packaging
- Informational and Private Network of LLC Investors
- Local Attorneys and LLC Agreements

Existence of an Entrepreneurial Ecosystem. While LLC Investor Groups can work outside of a functioning entrepreneurial ecosystem, they can have optimal impact and value where one exists. Communities that have sound entrepreneurial ecosystems that can provide a range of assistance to entrepreneurs and their ventures increase deal flow potential, reduce the risk of failure and financial loss, and ensure that deals, where LLC groups are investing, are more viable. For example, the LLC investors may want to provide capital for a deal, but do not want to provide essential technical assistance that can be secured elsewhere in the entrepreneurial ecosystem.

Ord, Nebraska's Entrepreneurial Ecosystem

Ord (2020 population of 2,016) with a regional population (Ord is the lead city) of about 10,000 has one of rural America's highest-performing entrepreneurial ecosystems in the United States. This ecosystem has supported a remarkable number of ventures (for-profit businesses, nonprofits, and governmental enterprises) over the past 20 years empowering transformative positive change. To learn more about Ord and this remarkable entrepreneurial story check out the ***Ord Story Collection***.

Capital Access within the Entrepreneurial Ecosystem. LLC investments are just one piece of a capital access system. Key financing resources within a solid rural community capital access system include:

- Venture Owner/Operator Capital
- Banks, Credit Unions, and Other Private Lenders
- Gap Financing through Community-Focused Revolving Loan Funds
- Foundation Impact Investing and Lending (desirable but not essential)
- LLC Investor Equity and/or Loan Funding

Identification and Engagement of Higher Net Worth Households and Potential Investors. Nearly every rural community has higher net worth households with the capability of engaging in LLC investing. The entrepreneurial ecosystem builder needs to identify and engage confidentially a network of capable and interested LLC investors.

Pro-Active Entrepreneur Engagement. Reactive behavior misses many entrepreneurial venture opportunities and often results in poorly constructed deals. Pro-active engagement with entrepreneurs and venture development opportunities creates a “deal pipeline” that can be properly and prudently cultivated creating optimal opportunities for engaging LLC investors in “good” deals.

Financial Packaging. Financial packaging is foundational to high-impact entrepreneurial ecosystems and capital access systems. Financial packages are often staffed through a community or regional revolving loan fund (RLF) program that provides gap financing. This trained financial packager works with the entrepreneur, banks, RLFs, and LLC investors to put together proper financing for a development deal. Financial packaging, when done well, empowers more deals, better deals, and more success.

Informal and Private Network of LLC Investors. Local investors generally do not want it widely known that they provide investments and loans to area ventures. For most, the last things they want are cold calls and the stress of engaging in deal opportunities that have not been curated. The local development group, and particularly the financial packager, would be on a first-name basis with some idea of what kind of deals specific investors like or dislike. The financial packager is key in connecting the right investors through an LLC group to specific deals.

Local Attorneys and LLC Agreements. Robert Stowell, as a long-standing and well-respected area attorney in Republic County, plays a key role as both a deal developer and legal counsel for LLC agreements. Nearly every rural community has attorneys like Stowell who can draft these agreements. Some consideration should be given to (1) finding attorneys who actively do these kinds of agreements (often investor participants themselves) and (2) how Stowell and others could provide training and mentoring for other attorneys not familiar with these kinds of agreements and deals.

The next section builds on the Republic County, Kansas, analysis of what this could mean for the entire state of Kansas if both LLC investors and charitable impact investing capable could be mobilized at scale.

In 2020 the U.S. Census Bureau documented a Kansas population of 2,937,880 residents. Kansas is the 35th most populated state in America and, like other states in the Great Plains, has vast geographies that are rural with pockets of small and mid-sized urban areas (e.g., Wichita, Kansas City, Kansas, Topeka). Expanding the use of LLC investors and charitable impact investing capital could infuse the Sunflower state with significant new venture financing.

Kansas Scale Up

Our illustration is specific to Republic County, a relatively rural and small community in north-central Kansas. Kansas, through NetWork Kansas, is a leader in providing capital access to underserved rural and urban communities and their entrepreneurs throughout the Sunflower State. NetWork Kansas has leveraged over one-half billion dollars of entrepreneurial venture deal flow over its life with the majority of this deal flow occurring in the last five to seven years.

NetWork Kansas Capital Access Paper

NetWork Kansas has possibly one of the most evolved and impactful capital access systems for underserved entrepreneurs in the United States. We have curated a paper – ***The NetWork Kansas Financial Capital System*** (October 2021) – that provides more detailed information on NetWork Kansas and the multiple ways it creates access to funding for entrepreneurs and their ventures. *Check out **NetWork Kansas Financial Capital System**.*

NetWork Kansas has been very successful in attracting and mobilizing capital for venture financing including the sale of state tax credits to raise funding for operations and loan funds, the attraction of other state funding (e.g., pandemic-related federal and state funding), the attraction of federal funding, the attraction of Pandemic Recovery Funding, corporate and bank support, foundation support, and most recently employment of foundation impact investing.

Kansas Profile

• Population	2,955,657	Small Population State
• Households	1,153,738	Slow Growth
• Families	752,008	Homogenous with Growing Diversity
• Median Age	37.6 Years	Aging Population
• Median Household Size	2.49 Persons	Declining Birth Rates
• Mean Net Worth	$760,108	Per Household

But even NetWork Kansas has just scratched the surface. Consider the following possibilities based on Esri 2021 data:

• Total Net Worth	$877 billion	Of All Resident Households
• Value of Cash Assets	$19.36 billion	Permanent Residents

The **charitable potential** across Kansas, assuming just a 5% gift rate of a total net worth of $877 billion, equals $50 billion in potential endowments. With a 4% annual payout rate of $50 billion in potential endowments, the collective annual grant-making potential is $2 billion per year forever. If just 5% of these endowed assets were focused on **impact investing,** nearly $2.5 billion in loans and equity investments could be made leveraging up to $25 billion in deal flow ($10 to $1 deal flow leverage). Diversion of 5% of these endowed funds into impact investing would reduce annual grant-making capacity from $2.5 to $1.9 billion. But these loans and equity investments by and large would recycle, unlike grants, perpetuating impact over time.

The Hutchinson Community Foundation and Entrepreneurship

The city of Hutchinson (2020 population of 40,006) anchoring Reno County (2020 population of 61,898) is located in south-central Kansas and is part of the U.S. 81/I-135 corridor running from York, Nebraska, in the north through Salina on I-70 to Wichita (Kansas' largest city – 2020 population of 397,532). The Hutchinson Community Foundation is an innovative leader in Kansas and nationally. Last year the foundation published ***Invest for More – Financial Return / Local Impact***. This piece captures how the foundation's strategic partnership with other community economic development stakeholders is making a difference in this part of rural America. With current assets of $90 million and planned gifts estimated at another $70 million, the foundation is leveraging systemic support for an entrepreneurial resource navigator position and program and committing up to 5% of its total assets to impact investing (likely both grants and loans). Already the foundation through its impact investing has helped fund affordable downtown housing, expansion of broadband to underserved residents throughout Reno County during the pandemic, and now support for an anchor downtown boutique hotel.

Aubrey Abbot Patterson, Foundation President, and CEO states:

"Local investing is the next step for the Hutchinson Community Foundation. We are bringing some of our dollars home to invest not in Wall Street but in Main Street – in the dreams of our own people whose work will improve this place we love. This is the power of community philanthropy." The foundation's role in supporting entrepreneurial development and impact investing is motivating other place-based foundations in Kansas and beyond to move into this community economic development space.

If just 5% of the **cash accounts** balance of $19.36 billion were focused on LLC loans and equity investments, entrepreneurial ventures could access nearly $1 billion ($968 million) in new capital leveraging nearly $10 billion deal flow (assuming a $10 to $1 leverage). This is a massive new capital source for all kinds of entrepreneurial ventures. By comparison, the total value of residential mortgages in Kansas in 2021 is just $15.32 billion. Again, as is the case with charitable impact investing, these funds will recycle creating future capital as current loans and equity investments are paid back releasing these funds for new investments and loans.

At e2 our field experience is clear with respect to **demand-driven** entrepreneurial ecosystem building. By demand-driven, we refer to the concept that as we work with targeted entrepreneurs in our communities, we gain insight with respect to their critical needs and wants. This market information is powerful in building a customer-centered optimal and affordable ecosystem.

Capital is a Foundation in Entrepreneurial Ecosystems

At the heart of any community-centered entrepreneurial ecosystem are entrepreneurs. In rural America, chances are good that the most in-demand resources include:

- Human Talent
- Technology
- Technical Assistance
- Networkers
- Community Engagement and Support
- **Capital Access**

Access to capital is hugely important. To stimulate and support more and smarter venture deal flow we need to mobilize all forms of capital access including:

- Capital from the Entrepreneur – 3Fs – Family, Friends, and Fools
- Bank, Credit Union, and Other Financial Institution Capital
- Community or Regional Focused Gap Financing Funds
- **LLC Investors**
- **Charitable Impact Investing**

Many communities engaged in entrepreneur-focused development are engaging the first three sources of capital. High-performing and impact entrepreneurial ecosystems are energizing the remaining two to empower more and better venture deals.

We hope this paper and accompanying podcast episode, *LLC Investing and Entrepreneurial Ecosystem Building,* are helpful to you and your community's development. We want to hear from you and your challenges, experiences, and success stories. Please share by contacting Don Macke at e2 via don@e2mail.org.

Questions and Information

Don Macke – Senior Vice President
e2 – Entrepreneurial Ecosystems – Hosted by NetWork Kansas
Office 402.323.7336 – Cell 402.770.4987
don@e2mail.org – www.energizingentrepreneurs.org