



BE FEARLESS

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JACOBS FAMILY FOUNDATION

A BE FEARLESS CASE STUDY



PRINCIPLES IN ACTION

MAKE FAILURE MATTER:

Failure teaches. Learn from it.

EXPERIMENT EARLY AND OFTEN:

Don't be afraid to go first.

REACH BEYOND YOUR BUBBLE:

It's comfortable to go it alone.
But innovation happens at
intersections.

An abandoned lot, an experimental initial public offering (IPO) and a culture that believes that failure leads to learning inspired the Jacobs Family Foundation to transform its business model from traditional grantmaker to place-based funder to maximize impact without sacrificing its core values and mission.

THE BACKGROUND

The Jacobs Family Foundation was founded in 1988 by Dr. Joseph "Joe" Jacobs, his wife Violet and daughters Meg, Linda and Valerie with a mission to provide skills training to nonprofit leaders. Then and now, the Foundation's work is rooted in and guided by a set of core values—relationships, respect, responsibility and risk-taking. Early grantmaking was primarily limited to

Pasadena, CA, where Joe had established the Jacobs Engineering Group. It gradually extended nationwide and to Lebanon, the original homeland of the Jacobs family. The Foundation granted funds through partnerships, nonprofit strengthening, neighborhood capacity and business development—including employment and education components.



Over the years, the Jacobs family grappled with the fact that while their investments were resulting in incremental progress in the community, they were not leading to dramatic, sustainable change. As the Foundation evolved into the late 1990's, it began to focus in on local placed-based grantmaking in the underserved Diamond Neighborhoods of Southeast San Diego. Funding took a new direction, as local nonprofit organizations became a focal point. Some of the existing grants categories remained the same, but funding for youth, family strengthening and nonprofit capacity building were also introduced. Being placed-based provided the opportunity to fully examine the needs of the neighborhood and to focus investment on strengthening the Diamond Neighborhoods in particular.

The opportunity to experiment with this more focused, place-based approach presented itself in a new way in the late 1990's.

An abandoned 20-acre lot in the Diamond Neighborhoods offered an opportunity for the Foundation to move beyond the role of grantmaker to a new role as community place-based funder.

The empty lot was a blemish on the face of the community, and enabled an open-air drug market that put community members at risk.

No commercial buyers wanted it; no developers had a vision for it; no one wanted to invest in it. Joe decided to buy it. The big problem: no bank would approve a loan to purchase the land. It was just too risky.

JOE'S DAUGHTER VALERIE RECALLS,

“We went to several banks and everyone said we were crazy.”

Confronted by the Foundation's first barrier to becoming a community developer, Joe decided to put forward his personal stock as collateral to purchase the land.

THE “AHA MOMENT”

The Foundation and the Jacobs family faced many unknowns. Could they bring a diverse, yet segregated community together to work towards a common vision for use of the lot? Could they attract commercial development for the lot? But, as Valerie explains, “my father believed that providing jobs to people is the most respectful thing you can do.”

At the same time, the family knew that creating job opportunities for community members would only be successful if those same individuals had access to transportation, education, skills training and proper healthcare. This 20-acre lot presented an economic development opportunity with the potential to create jobs as a first-order attack on poverty and insecurity, while also addressing its root causes within the community.

For Joe, that opportunity was worth the risk and he banked on his own beliefs that: (1) the poor were “bankable;” and (2) the Foundation should change its business model to move from “Band-Aid” solutions for the community toward systemic change.

THE *BE FEARLESS* RESPONSE

“EVEN BABE RUTH STRUCK OUT 1330 TIMES.”

Joe kept a plaque on his desk that read “Even Babe Ruth struck out 1330 times” as a reminder to himself and his team that failure happens, failure matters and failure leads to learning.

Joe’s grandson and current Chairman of the Board Andrew Hapke, notes,

“Failure was an important part of his worldview. He was the son of Lebanese immigrants and believed in picking yourself up and dusting yourself off. He brought that to the Foundation.”

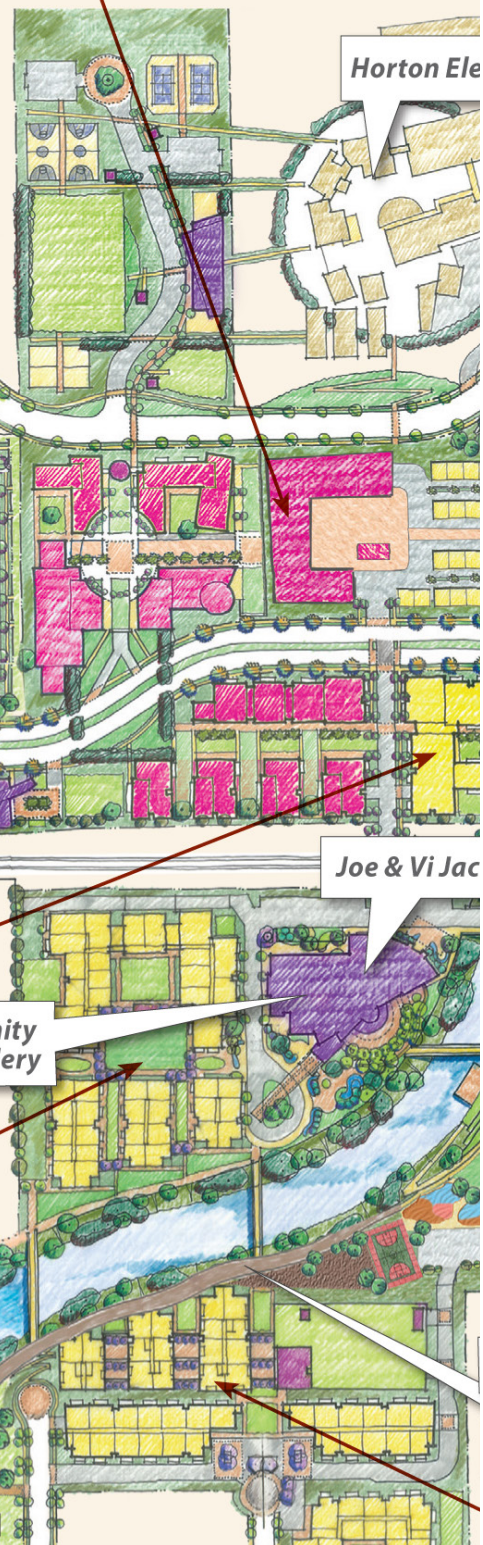
With the purchase of the 20-acre lot, the Foundation decided to experiment with a bold new approach to financing community redevelopment, modeled after an IPO concept to engage residents as investors in

their community. That decision meant transforming the business model of the Foundation from a traditional grantmaking and capacity building organization to an experimental place-based funder focused on holistic community revitalization. While the Foundation confronted all its fears about dramatic change, they understood the importance of smart risk-taking. The 20-acre lot offered the opportunity to pilot a new role in community redevelopment on a fairly small scale and in a fairly controlled environment. If successful with the 20-acre lot, they could expand their real estate investments to a larger territory.

The Foundation increased its odds of success by trying to match incentives to the community with incentives to the Foundation—they believed that people in the communities they were trying to serve needed to be direct participants in identifying the problems and driving the solutions necessary for sustained economic growth, investment and, perhaps most importantly, hope.

While in escrow, the Foundation went door-to-door in the community to hear directly from residents about *their* vision for the lot. They also deployed an outreach team comprised of volunteers from the community at street fairs, festivals, grocery stores and within the neighborhood to interview residents. After 600 personal conversations with residents and businesses, the Foundation had a list of the top 10 ideas for the use of the lot—all drawn directly from the community. First on the list: a grocery store. The community also dreamed of a coffee shop, a sit-down restaurant, a place to bring their families for arts and culture, a bank and a movie theater.





These dreams, over the years, would become a reality through the development of Market Creek Plaza. Market Creek Plaza became home to a Starbucks, a Wells Fargo bank, a sit-down restaurant, a Food4Less grocery store and an amphitheater for cultural events and performances.

At the time, they didn't know which swing would be a homerun and which would be a strike out, but they were willing to take the community's recommendations and learn from any failure they encountered along the way.

TRY, FAIL, LEARN, REPEAT... BUT STAY GROUNDED IN YOUR VALUES

Success did not come without challenges. While other developers offered below-market rates for businesses leased in the community, the Foundation refused to de-value the community in that way. They offered established national and local businesses a standard lease agreement at market rates with increases every five years. With the intention to fill Market Creek Plaza with equal representation from national businesses, local chain businesses and start-ups established by local entrepreneurs, the Foundation established a \$1M loan fund to incentivize local entrepreneurs.

When the Foundation started leasing spaces in Market Creek Plaza, they were thrilled when more than 200 start-ups applied. However, they soon realized that only a limited number of these applicants had the adequate

business plans, work histories and backgrounds to make success likely. While well intentioned to boost local minority and women-owned business enterprises, the fund's sustainability was challenged early on. Businesses were unable to repay the funds provided for business start up and support, driving lending institutions to recapture their loan proceeds from the Foundation's guarantee. More than half of the \$1M fund was recouped and the Foundation took a significant loss by way of bad debt discharge.

Additionally, the portion of Market Creek Plaza dedicated to local start-ups saw significant turnover. One of the ways the Foundation sought to combat these setbacks was to begin offering technical assistance, business plan support and accounting systems support to strengthen the ability for these local businesses to succeed. Despite this concerted effort, the Foundation recognized that its vision to have a strong local entrepreneur presence in Market Creek Plaza was failing.

The loss of capital and apparent lack of success in the local chains and start-up investment strategy mandated reconsideration of the goals for the Plaza. At the end of the day, the profitability and stability of Plaza businesses were critical for the long-term sustainability of the greater vision. As a result, the Foundation recommitted to supporting businesses that were most likely to succeed and maintain a long-term presence. Less focus was put on whether they were national, local chains or local start-ups. As Valerie notes, *"We would love to have local [entrepreneurs], but the Plaza needs to be profitable and so we may need to choose a national business over a local business to ensure profit."* The Foundation recently put in place a tenant selection policy that screens for businesses

that have a chance for success, but also created a local hiring policy to ensure locals benefit from the job opportunities created.

The Foundation then tried something no other Foundation—to their knowledge—had done. They decided to experiment with a Community-Development Initial Public Offering (IPO) to secure local investment in Market Creek Plaza.

Valerie recalls how the idea for the IPO came to be,

“The IPO model came out of my father’s sense of wanting people in the community to have skin in the game [with the revitalization of the community].”

She recalls a meeting with community residents where Joe stood up and asked how many would be willing to invest in the community with him. Everyone raised their hands. She quotes her father, *“That makes my heart sing!”* So began the focus of the Foundation on resident ownership in community change.

It was important to the Foundation that residents had decision-making power and both physical and financial stakes in the future of the Plaza. This was the only way for it to be sustainable.

The Community-Development IPO was an experiment for which the Foundation had no road map. It was also an experiment that took patience. The Foundation invested five years to get the IPO approved. From the moment the application was filed (May 2001) to receipt of the permit from the California Department of Corporations (DOC) to conduct the offering (January 2006), the Foundation had to overcome many obstacles to win approval of the country’s first-ever Community Development IPO. The DOC indicated their willingness to approve this venture, but with conditions, due to the inherent risks of investing in a commercial development. Two such conditions worked in tandem—presenting a strong pro forma of the proposed Market Creek Plaza development and absorbing the high-risk elements associated with development, such as clearing environmental contamination, construction of all primary buildings and fully leasing the plaza. The most daunting of the conditions was convincing the DOC that the offering was fair to residents of modest means in the Diamond Neighborhoods, many of whom did not meet the financial thresholds common to traditional investors.

To address the DOC’s concern of financial capability by residents, the Foundation sought to make requirements flexible to permit any resident of the Diamond Neighborhoods to invest while at the same time limit their risk to an amount they could afford to lose. The Foundation also assured the DOC that potential investors would be screened and educated to provide a reasonable understanding of the risks and potential rewards of investing in Market Creek Plaza. As the intent of the DOC regulation is to protect investors, a 10-10-10 Plan was created by the Foundation, meaning:





(a) any individual meeting the stakeholder criteria could invest up to 10 percent of their income, no matter the limit; or (b) 10 percent of their net worth, excluding homes, cars, furnishings and retirement accounts; and (c) no single investor could invest more than \$10,000. Five years after the initial proposal, all of the conditions were met and the DOC approved the application.

The Foundation did not allow the extensiveness and length of this process to cause the IPO dream to fail. They persevered with their vision for resident-owned community change.

When the IPO was finally approved and launched, it created a network of more than 400 investors who now monitor and work to ensure profitability of Market Creek Plaza.

The IPO gave residents the opportunity to buy into their own community development.

After the IPO was completed, the Foundation purchased more land to expand Market Creek Plaza to 60-acres, creating The Village at Market Creek. This next phase of development included building out residential areas along with additional businesses. The project had momentum and growth, and the community was engaged and enthusiastic about the planning. But then in 2008, after a decade of progress, the economy took a downturn, and the housing and building bubbles burst. The state lost its affordable housing redevelopment agencies. Construction stalled for three years. The Foundation's

portfolio suffered, which resulted in drastic cost saving measures that transcended through all components of the work. The Foundation was forced to cut its staff by a third (and subsequently faced the sobering task of rebuilding morale). The community, whose vision and investment had been the engine behind the expansion, began to lose trust.

The Foundation relied on its founding mantra—setbacks are opportunities to learn and adapt. They realized that one organization, no matter how well endowed, could not alone tackle the revitalization of an entire community. From the beginning, the Foundation's goal was to transition The Village at Market Creek over to the community; to move The Village from an effort of community engagement to an effort of community control and governance. For these reasons, the Foundation has recently begun a second major shift—focusing on collaborations and strategic partnerships to achieve large-scale impact in the community. They are working with multiple organizations within and outside the community to drive even bigger outcomes and to ensure that the community as a whole owns these outcomes.

AS VALERIE NOTES,

“We never wanted to lead, but to be the supporting organization. We want residents to run this.”

The downsizing of the Foundation's staff, while painful, enabled the organization to trim down to a position where it can more easily play this partner role, transferring key tasks related to the implementation and operations of The Village at Market Creek to the community.

THE RESULTS

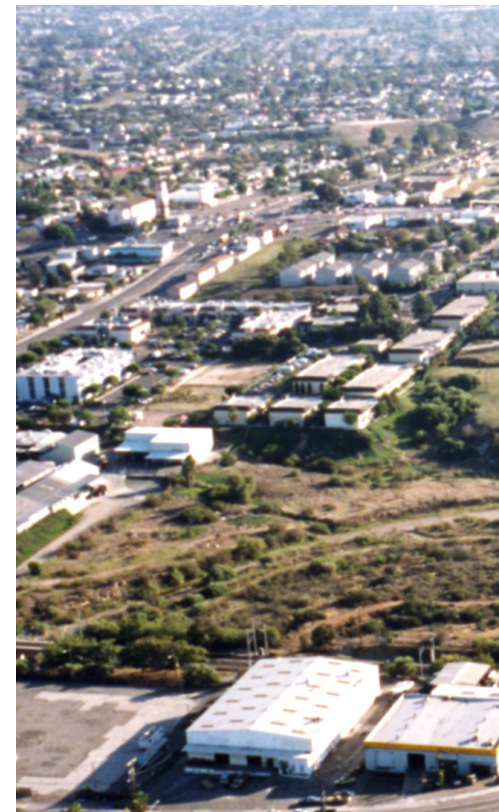
The Community-Development IPO allowed more than 400 community members to buy shares in the economic development of their community. Those community members became owners in the direction of the community's future. As a result of this community investment, the Diamond Neighborhoods have benefited from job growth, reduced crime, greater cultural connectivity and greater civic engagement. Following the IPO, investors were seeing a 10 percent return on their investment. However, the consistency of these returns was challenged by the economic recession and its impact on the profitability of Market Creek Plaza.

In three of the last six years, dividends have been paid out to investors at a 10 percent return. Investors are aware of and fully understand that the payout of dividends is directly connected to the profitability of Market Creek Plaza.

In years when the Plaza has been profitable, dividends have been paid; in years when the Plaza has broken even or suffered a loss financially, dividends have not been possible.

When asked about the most significant, tangible outcomes of Market Creek Plaza, Reginald Jones, President & CEO, cites the engagement of a large number of residents and stakeholders in the visioning, planning and implementation of community change.

He notes the wealth-building opportunities that the IPO-model has provided to resident investors. He also talks about how the plaza has helped to foster increased quality of living within the community through access to arts and culture programs and performances. Valerie highlights the development of a Community Investment Fund (CIF) as one of the most significant outcomes of the IPO. The CIF was started by a group of original investors in Market Creek Plaza that wanted to continue to make direct investments in real estate in the Diamond Neighborhoods.





The fund is comprised primarily of dividends from their original investment as well as their own personal dollars. To date, the group has generated a pool of funds totaling just over \$90,000. Once they achieve their fundraising goal of \$100,000 they will decide on how to invest the funds within the community. The vision for the CIF is to create a long-term, sustainable income source for continued investment in real estate in the community. Jacobs Family Foundation has supported these investors as a technical advisor, ensuring they are able to access the needed legal and investment counsel. The shift that the Foundation took from traditional grantmaker to place-based funder was not without challenges. That said, the failures they experienced along the way were what enabled them to also learn. The Foundation persevered through a fundamental shift in its approach to philanthropy, a land purchase that no financial institution supported, an economic downturn, community mistrust and an unproven IPO model that state agency administrators feared. The Foundation is still working to help residents fully recognize the value of the philanthropic partnership in being able to leverage resources and stimulate development in the community. Through their tenacity, the Foundation has given residents of the Diamond Neighborhoods a meaningful say in the direction of their community.

Through its nearly 20-year commitment to Southeastern San Diego, the Foundation has demonstrated their commitment to investing in the community over the long-term. Today, the Foundation is focused on shifting governance for The Village at Market Creek to the community and to sunset its control by 2030.

REGINALD NOTES,

“Our key charge now is to redevelop the vacant land, foster family strengthening, and build the governance model in order to bring community stakeholders into the boardroom.”

Along with this, Reginald says,

“It is essential to cultivate appropriate collaborations and strategic partnerships that will increase resources to advance the work at hand. This is what will drive success for us.”

True to its history, the Jacobs Family Foundation will continue to experiment, learn and persevere through failure as it makes this next transition towards its vision of resident owned community change.



Guiding Discussion Questions (For Funders and Nonprofits)

As an organization, are you having the desired impact you'd like to have, or like Jacobs Family Foundation, is there a shift needed in your approach?

 _____


How does your organization think about risk and talk about failure?

 _____


What things might you do differently to think about failure as a crucial component of success?

 _____

Do you have a set of corporate values that guide your work? Would a set of corporate values be useful to guide/focus/ground your work?

 _____

To what extent do you set aside funds for experimental or pilot projects? Why is that important to you?

 _____

To what extent is your organization comfortable bringing stakeholders into your most strategic decision-making processes?

 _____

What would it take for you to sincerely engage unusual bedfellows in decisions about the vision and strategy behind your investments and key decisions?

 _____

Created in partnership
with **Community Wealth
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Special thanks to:

Reginald Jones
President & CEO

Stephen Maduli-Williams
VP, Economic Development;

Andrew Hapke,
Board Chair

Valerie Jacobs Hapke
Board Member

**for their contributions to this
case study.**

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