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The Rise of Public-Sector Crowdfunding

VIRGINIA PELLEY SEP 15, 2017

Around the country, local governments are soliciting donations for everything from dog parks to public defenders. Is this a practical response to budget cuts or a sign that publicly funded services are in trouble?

Earlier this year, when the new sheriff of Travis County in Texas announced that her officers would not cooperate with federal immigration investigators (part of an ongoing battle over sanctuary city issues), Texas Governor Greg Abbott retaliated by slashing the county's criminal justice funding. The remaining $1.5 million in state grants for 2017 would have helped maintain programs for veterans, sex workers, and parents struggling with substance abuse.

Concerned about the loss of those programs, constituents called state Rep. Eddie Rodriguez for help. To try to make up for the governor's cuts, Rodriguez and a local nonprofit, the Austin Community Foundation, launched the crowdfunding campaign Travis County #StrongerTogether in February. By May, they'd raised more than $150,000, which will cover court program costs from October to mid-November.

It has been nearly a decade since companies such as GoFundMe and Kickstarter started providing online fundraising platforms where interested people can help fund myriad projects, such as films, new technologies, teachers' classroom supplies, friends' medical bills, and even one couple's honeymoon. More recently, local governments have been getting in on the action. And despite the unpopularity of state and city tax hikes, it appears that many people are happy to fork over money to the government when they're able to dictate where it goes.

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Either on their own or via the government-specific crowdfunding platform Citizinvestor, which launched in 2012, governments have run successful campaigns big and small. In 2015, 51 people donated more than $80,000 to the city of Fort Lauderdale, Florida, for a swanky dog park. The mayor of Central Falls, a city of one square mile in Rhode Island that declared bankruptcy in 2011, raised money for new trash bins in a local park in 2013. In May, St. Louis' Treasurer Tishaura Jones reached just over half of her goal of $25,000 to remove a Confederate monument from Forest Park. (It was taken down in June.)

Workers took down a Confederate statue in St. Louis' Forest Park. The city treasurer raised money for its removal on GoFundMe before a local museum stepped in. (Jeff Roberson/AP)

It's Not Just About the Money

Contributing to crowdfunding campaigns gives donors a sense of direct control about how their money is being used, experts who have studied crowdfunding say. Paying taxes, on the other hand, might feel like throwing dollars into an abyss. Donors may get a sense of ownership about a project, and satisfaction that they're making their communities a better place, whether they're assisting neighbors with mental health and substance abuse problems, as contributors to Travis County #StrongerTogether did, or helping to install a parklet or trash cans in their city.

Plus, in many cases, it's a tax write-off. "Donations to government projects that are defined as 'public purpose,' according to IRS publication 1771, are allowable federal income-tax deductions," says Joy Randels, CEO of Citizinvestor. "The exception to this rule would be if a donation were intended to benefit a particular individual, and we don't accept those types of projects. … The funds [raised via Citizinvestor] are never transferred to an individual, but to the municipality."

Crowdfunding is a "ridiculously simple" means of money collection compared with an in-person exchange of cash or checks, or requesting bank routing numbers, says Elizabeth Gerber, an engineering professor at Northwestern University who has written about crowdfunding. Plus, it's a broadcasting tool that allows individuals, groups, and cities to publicize their needs.

Gerber says, in fact, that many of these campaigns are more about visibility than cash. "We see that a lot in our research: people using crowdfunding as a marketing campaign to raise awareness about an issue."

Getting the word out about the dire situation of the public defenders' office in New Orleans was the impetus for a 2015 campaign launched by Derwyn Bunton, chief public defender of Orleans Parish. Sharp budget cuts had meant staff furloughs, hiring freezes, and the controversial decision to turn away cases, putting indigent defendants on waiting lists for court representation.

"The idea was really more symbolic than anything, and we weren't sure what to expect," Bunton says now. "We wanted to highlight that this is kind of ridiculous—that this is a political entity guaranteed by the Constitution, but we couldn't do what we're called upon to do."

Because the defenders couldn't ethically handle their bulging caseloads, Bunton says, they were forced to start refusing cases "at the top end"—in other words, the most serious (and therefore time-consuming) cases involving murder and other capital crimes.

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Which meant that clients who might be guilty of rape or murder could not constitutionally be held indefinitely while waiting for a lawyer, so would have to be released. Raising awareness about that, Bunton says, "also impressed upon local leaders to do something." The campaign generated enormous media attention, including a segment on *Last Week Tonight with John Oliver*, which helped the office raise $100,000—or $85,000 more than its goal.

The money was welcome, but the publicity was just as important. "It captured the attention of stakeholders who released additional funding from the state, and the city council and mayor's office also stepped in with additional resources," Bunton says, adding that local restaurants held fundraisers as well.

The attention generated by a crowdfunding campaign can end up bringing in far more money than the stated campaign goal, after the fact. Ethan Mollick, an associate professor of management and entrepreneurship at the University of Pennsylvania's Wharton School, looked at more than 60,000 Kickstarter campaigns in a study published last year and concluded that every dollar raised in a successful campaign translated to $2.46 of additional revenue.

But Gerber points out that for every hugely successful campaign, there are dozens that fail to catch on. Crowdfunding tends to be labor-intensive, and the average return on investment is low. "It appears super-easy, but it's kind of like the Gold Rush," Gerber says. "[That] was laborious, and few people profited."

Put simply, the digital landscape allows more voices to be heard, Randels says. "Generally, with town hall meetings held in the middle of the day, government officials hear from the same constituents all the time, so they're not getting a broad view." Sometimes, citizens also use the sites to proactively fund a project that has stalled out for months or years. "It would be great if taxes would cover everything we want, but they don't," Randels says. "So making a tax-deductible donation and getting something you want in return does make a big difference to people."

Government by Kickstarter

Generally, crowdfunding has a democratizing effect because the barriers to participation are low, Mollick says. He notes that many successful projects have benefited the social good, such as campaigns to provide resources for literacy centers, parks in disadvantaged areas, and food deserts.

On the other hand, handing decision-making over to Kickstarter comes with its own risks. "Government isn't necessarily supposed to be about doing what the people with the most money want to see," Mollick says. Governments are supposed to weigh priorities systematically to determine what constituents most need and where that need is greatest, and they're responsible to all their voters—those who make crowdfunding donations and those who don't.

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You might give money to rehab the park in your neighborhood because your neighbor started a campaign, and you have $10 to spare. But there may be other parks in other neighborhoods you don't know about that need the rehab more, and are less likely to pull in donations.

"So whether the ability to target your funds is a good or bad thing is an open question," Mollick says. "It's nice to have people do this sort of stuff, but it's hoped that this would not just be for those areas that are making an end-run around government. With crowdfunding, even though lots of people can make a big difference, it still tends to be people with money to give who will be the ones giving it."

Governments also risk becoming dependent on outsourcing some functions to their constituents, Mollick says. "Readily available crowdfunding may change investment patterns by government, for better or worse. On the negative side, it could result in government pullback from needed services, or make it so that some services are only available to segments of communities that pay for them." Or, more positively, crowdfunding could spur responsible public-private partnerships, he speculates.

Public-service crowdfunding is likely to grow as the idea spreads and citizens become more savvy about engaging with their governments this way. New Orleans' Bunton says the support he received, locally and internationally, for his campaign renewed his staff's faith that citizens understand the importance of public defenders in the legal system. "It showed us that if you get your message out, folks can be educated about it," he says.

When asked if he'd ever launch another campaign, he responds, "I would do it again in a heartbeat."

**CORRECTION:* *Neighborly has a municipal-bond investment model, so individuals who use it are investors, not donors. The story has been updated to reflect this.*

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