Discretionary Grants: Engaging Family… or Pandora's Box?

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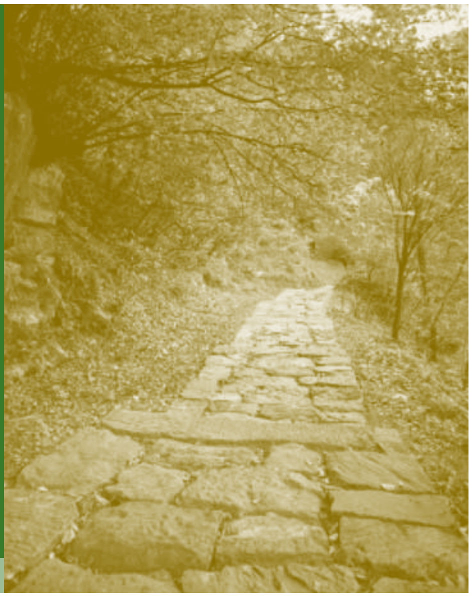

If you asked at a gathering of family foundation folks whether using discretionary grants is a good idea, you'd never reach consensus. Many family foundations don't use them. Those that do have widely varied policies governing how much money is available, who is eligible to make the grants, and whether the grants must be within the foundation's mission and guidelines.

A decade ago, the National Center for Family Philanthropy wrote a *Passages* issue paper to examine family foundation practices around discretionary grants. For this *Passages*, we revisit the subject to see if trends in the use of these grants are changing. Anecdotally, we know that some foundations cut back on their discretionary grantmaking budgets when the economy weakened. Others have begun using them as a way to engage a new generation of board members. But what else is new with discretionary grants? It's time for a fresh look.

WHAT'S THE ISSUE?

Typically, a discretionary grant program allows designated individuals to direct a gift from the foundation to a chosen nonprofit organization with the full board approving the grant by consent. These grants differ from core program grants in that they typically do not go through the same level of review and may not even have to meet the foundation's mission or guidelines. Usually the individuals are board members and sometimes the CEO, but some foundations extend the privilege to others.

Proponents say that discretionary grants are useful tools to:

- Keep family members engaged in the foundation's work when they no longer live in the community it serves
- Keep board members' personal passions from taking up time on the board's grantmaking agenda
- Help trustees with wide ideological differences get along better and keep

their focus on the core grantmaking on which they can agree

- Train future trustees in the grantmaking process
- Allow a quick turnaround to respond in times of natural disasters or other emergencies

Critics say that allowing individuals to designate grants:

- Turns the foundation's assets into several personal piggybanks instead of encouraging collective and strategic grantmaking
- Prevents the board from focusing on shared goals
- Leads to less scrutiny for effectiveness and impact than other grants receive
- Confuses grantees if the grants are outside of the foundation's mission
- Can open the foundation to legal difficulties around self-dealing if not handled carefully
- May reduce the amount available for mission-related grantmaking over time as families expand and more people want to participate

This is just a partial list of the pros and cons. As with any things related to family foundations, whether discretionary grants add to or subtract from the foundation's work depends on the individuals, the family, and the situation. What's right for some isn't right for others.

Alice Buhl, senior consultant to Lansberg, Gersick and Associates and senior fellow at the National Center, has worked with countless family foundations. She recommends discretionary grants for some family foundations and not others. "Discretionary grants can be a really good safety valve. They can help families stick to their focus," by allowing individual board members' interests to be handled another way. "But they should be modest," stresses Buhl. "If they take up a big piece of the budget, then you are not focusing your resources on what you said you wanted to be doing—grantmaking together as a family."

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For National Center President Ginny Esposito, the question goes back to good governance and a clear understanding of the family's shared goals and values. "Don't start the conversation with whether you want to have discretionary grants or not. Instead, ask 'what are we trying to accomplish together? What are the tools that will help us do that?' It might be discretionary grants or it might be something else."

For example, Esposito thinks discretionary grants can work well when "they keep the family's eye on the shared grantmaking" by providing an outlet for various individual interests of board members who disagree on certain shared funding areas. They can also be used creatively "by families trying to stay on the cutting edge. There could be a percentage of the grantmaking allocated to innovative issues," with individual family members bringing ideas to the table through their own knowledge of their communities.

But sometimes discretionary grants designed for one purpose are used inappropriately, says Esposito. "Discretionary grant policies can lead to a sense of entitlement. I hate it when I hear 'my share' because it means that the notion of stewardship of a public trust has shifted to one of ownership."

One place where Esposito thinks a lot of families go wrong is when they strive for family fairness. "Fairness is an elusive if not unachievable goal," she advises. For example, foundations that apportion discretionary grants by branch can inadvertently find themselves in serious disagreements about having spouses as board members, because it means a married couple would then have twice as much discretionary grant money available as an unmarried member. "The question of whether to let spouses on the board is a governance question. What do discretionary grants have to do with it?" Esposito says. "They should be asking 'What does the foundation need?'"

ROUGHLY HALF OF FOUNDATIONS USE DISCRETIONARY GRANTS

In the 1990s, the number of foundations using discretionary grants grew significantly. The Council on Foundation's membership survey of 1998 found that 42 percent of their family foundation member respondents allowed discretionary grants, up from 32 percent in 1992. By 2004, the percentage had grown again, to nearly 54 percent. Now it appears that growth trend has peaked. In COF's most recent survey (the 2010 edition) conducted in conjunction with the Foundation Center, the percentage had dropped to 46 percent. This drop, however, may be temporary. Some foundations

Why One Foundation Eliminated Discretionary Grants in Favor of Matching Grants

At the time Carrie Avery, president of the Durfee Foundation in Los Angeles, and her brother joined the foundation's board, they were in their 20s. Family board members had been allocated $20,000 per member annually in discretionary grants money. After seeing the process in action, Avery convinced the family to eliminate the grants.

"I was 26 years old and new to the board. I disagreed with my grandfather [the founder] over a $3,000 discretionary grant to an organization whose mission I disagreed with fundamentally. We had very divergent political views, and this grant brought them to the surface." The discussion went on for so long without resolution that the board decided not to make the grant. "And we eventually decided that discretionary grants weren't a good use of our board's time or our foundation resources," Avery recalls. "There was so much that our board agreed about; that's why we developed a mission statement. Why spend our time talking about off-mission organizations that we could not agree on?"

At the time, Avery and her brother "were both in grad school and didn't have any personal philanthropic resources," she says, so the elimination of the grants affected them the most. "But what's the purpose of the foundation? It's not to execute the trustees' personal giving." Instead of discretionary grants, the foundation now encourages personal philanthropy through a matching gifts program providing up to $1,000 a year for trustees and staff. The match can also be earned for volunteer hours to a nonprofit.

Now, years later, she says her opposition to discretionary grants has grown stronger. "They create confusion in the nonprofit world about the foundation's mission and grantmaking. Nonprofits have difficulty distinguishing between mission-driven and discretionary grants when they look at a foundation's grantmaking history to determine if they are a good fit. Also, it troubles me if there is a tacit deal between trustees to 'vote for my discretionary grant and I'll vote for yours,' and the grants aren't examined with the same rigor as the mission-driven grants," Avery says. "If that happens, trustees aren't acting as the fiduciaries they should be."

suspended their discretionary grants programs due to the recession which took a toll on foundation endowments and grantmaking budgets. The 2010 COF survey data also showed the median grant for family foundation board members was $15,000 and the mean was almost $30,000. The range was very wide: $1,500 to $191,700. The high end grants are likely made by donors who often retain more discretionary grant authority.

The Association of Small Foundation's 2006-2007 membership survey found that about one third of their respondents allowed some discretionary grants. In the 2010 survey (published in 2011), that number had grown to 43 percent. Although ASF's numbers aren't broken down by type of foundation, 55 percent of respondents to the survey were family foundations, which typically use discretionary grants more than other foundation types. The ASF survey also showed that discretionary grant dollars awarded were typically $13,500 on average for board chairs and $10,000 for board members and CEOs. (Note: in some small foundations, the board chair is the donor.)

WHAT WE LEARNED FROM NCFP'S ONLINE SURVEY

In the fall of 2011, the National Center conducted an online survey and series of phone interviews to learn more from family foundations that use discretionary grants. We found that there are as many

Why One Family Switched from "Con" to "Pro" on Discretionary Grants

Over time, the Russell Family Foundation in Gig Harbor, Washington, has reversed its views on discretionary grants. When the foundation was endowed in 1999, the board decided not to use discretionary grants "because the foundation was created so the family could work together in consensus around their common causes," explains Chief Executive Officer Richard Woo. "They didn't want to be an organization that just divvies up the money according to individual interests." When the family brought on their first non-family board member in 2002, however, they decided to allocate $25,000 annually for discretionary grants to recognize the independent director's time and devotion to the family's philanthropic work. "The most outside board members we've had at any one time is three, so it was $75,000 all together," Woo says, representing a small percentage of their annual philanthropic budget of $6 to $8 million.

The reversal came in 2010 when the board decided family trustees should have the same opportunity to make discretionary grants as the non-family board members. The board now totals eight: five family members and three non-family. "The change was very successful and educational," Woo says. "It engages the board members as they share their grants with each other and their rationale for choosing them. It also offers hands-on grantmaking experience for the board, since it isn't staff driven." As CEO, Woo retains the ultimate authority to approve each grant.

Why the change? "One reason the family was reluctant to expand the use of discretionary grants in the early years was a concern that people might disagree over which grants furthered the foundation's goals," Woo explains. "Now they have a greater ability to hold the harder conversations and are also comfortable surrendering these to an independent authority—me. While there's the potential for conflict, there's also greater understanding of each other as they explore their passions and differences. I take it as a sign of maturity in board governance for both family and non-family directors." Woo does not have discretionary grants himself, but like the rest of the staff, does have access to up to $5,000 a year in matching grants for his personal charitable donations. In addition, each employee can direct up to $1,000 in grants from the foundation to community nonprofits where they serve as volunteers or on the board.

approaches to using them as there are foundations. Who can make these grants, the amounts, and the grantmaking process varies widely. Here is a summary of what we learned:

- Typically, discretionary grants are made by board members. Sometimes they are restricted to the board chair, and sometimes they are made available to the foundation's executive director.
- Some family foundations elect to extend the discretionary grantmaking privilege to selected family members not currently on the board or to emeritus board members. Occasionally, spouses of current board or family members are also included.
- Some foundations make discretionary grants available to next generation family members as a way to engage and prepare them for eventual service on the board (see page 10).
- Sometimes, only non-family members of the board are allowed to discretionary make grants, as a means of thanking them for their service to the family. But others limit discretionary grants to the family members on the board, excluding non-family trustees from the program.
- One respondent said that only "family board members who live outside the community where the giving is focused" can designate grants.

Discretionary grants are sometimes used to recognize special service to the foundation. The Dyson Foundation in Millbrook, New York, provided a $5,000 discretionary grant to honor a staff member who retired. Some allow the grants to mark staff service anniversaries such as five or 10 years. Other foundations provide a small discretionary grant as a thank you to someone who volunteers their services to the foundation, such as a speaker or grant reviewer.

The amounts each individual has for discretionary grantmaking not only varies from one foundation to another but sometimes within one foundation. For example, board chairs—especially when they are the donors—sometimes have a larger allocation than the rest of the board members or may be the only ones who can use discretionary grants. It's also common for there to be generational differences, with the first generation getting the largest amount, whether still on the board or not. These are sometimes referred to as legacy grants.

While discretionary grants have the potential for conflict, they also may result in greater mutual understanding among board members as they explore their passions and differences.

For example, a foundation in Georgia has three legacy trustees plus three next generation trustees and two non-family trustees. The legacy trustees can direct $25,000 a year in discretionary grants. Next generation trustees get $10,000 a year during their first term of service, with a budget increase of $2,500 with each subsequent term of service, to reward seniority.

SCRUTINY IN THE DISCRETIONARY GRANTMAKING PROCESS

Some people object to discretionary grants because recipient organizations may not be evaluated as closely as the rest of the foundation's grantees. This reflects the related concern that discretionary grants may be more prone to violation of self-dealing rules unless proper precautions are put in place.

Even though discretionary grants typically don't go through the foundation's regular review process, the full board is still legally responsible for approving all discretionary grants made by individual trustees. Therefore, a written policy on discretionary grants that is well understood by all trustees is crucial (see pages 12-13 for an example).

Sometimes the initial approval of such grants is delegated to one trustee, such as the board chair, or a trusted staff member, so that the grant can be made and ratified later by consent at the full board's next meeting. **The person entrusted with this responsibility must make sure the designated nonprofit is a 501(c)3 organization and that there is no self-dealing associated with the grant.** This means that the individual designating the grant can't receive any personal benefit from it. For example, a discretionary grant can't cover an individual trustee's donation to his alma mater, because that is intended to reflect a gift from the individual rather than the foundation. (Note: this rule also applies to matching grants, as discussed below.) Also, if a discretionary grant is going to a foreign charity, the foundation must follow standard procedures regarding expenditure responsibilities to ensure the gift will be approved for charitable purposes.

Conflict of interest questions sometimes arise when foundations consider discretionary grants. Every foundation should have a written conflict of interest policy, regardless of whether it has a discretionary grants program. Board members should disclose any nonprofits with which they are affiliated. The fact that a foundation board member also serves as a volunteer of a nonprofit does not preclude a grant being made to that nonprofit. But there should be full disclosure. Many foundations require board members to complete conflict of interest disclosure forms annually. (Sample policies and forms can be found in the National Center's Family Philanthropy Online Knowledge Center.)

BOARD REVIEW PROCESS FOR TYPICAL GRANTS

Proposal Origin	Staff/Committee Review	Approval for Board Discussion	Full Board Discussion	Decision
• Grantees *(unsolicited proposals)* • Request for Proposals *(solicited proposals)* • Individual Trustees • Staff Research	• Guidelines review to ensure grantee is eligible • Content/program review to ensure grant is of interest to board • Legal review to ensures grantee is a 501(C)(3)	Yes No	Yes No	Grant is approved or declined based on decision fo the board Grant is declined

BOARD REVIEW PROCESS FOR A DISCRETIONARY GRANT

Proposal Origin	Staff/Committee Review	Approval for Board Discussion	Full Board Discussion	Decision
Trustee or Staff Member	Legal review to ensures grantee is a 501(C)(3)	Typically None	Typically None	Board ratifies grant (may be at a later date)

Source: Jason Born, "Discretionary Grants: Encouraging Participation... or Dividing Families?" *Passages*, Washington, DC: National Center for Family Philanthropy, 2001.

Legal issues aside, some people question whether discretionary grants should bypass the foundation's regular grant making process. On one hand, there are those who feel that the grants are usually small relative to the overall grants budget and that trusted individuals should be allowed to designate whatever nonprofits they judge worthy. Others have taken a more proscribed approach, requiring that discretionary grants stay within the foundation's mission and guidelines, that the nonprofit must submit additional information beyond their IRS determination letter, and that the individual designating the grant must make a site visit and write up a report recommending the grant. Some foundations even require that nonprofits receiving discretionary grants submit final reports, just as any "normal" grantee might be asked to do.

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SHOULD DISCRETIONARY GRANTS HAVE TO FIT THE FOUNDATION'S MISSION AND GUIDELINES?

Opinion is divided on the question of whether discretionary grants should have to follow a foundation's mission and guidelines. "In general, I think they should," suggests NCFP Senior Fellow Alice Buhl. "But if the mission is really narrow, it's better to let individuals go outside it." Mary Phillips, president of GMA Foundations in Boston, serves as an advisor to the Samuel P. Pardoe Foundation. Among other things, she manages the family's grantmaking which used to fund many initiatives but is now focused exclusively in New Hampshire and primarily on operating an environmental education center on donated family land in a rural part of the state. This narrower focus led to the creation of a small discretionary grants program for the five family members who serve on the board of the $10 million foundation. "The grants don't have to be within the mission," Phillips explains. "That would negate the reason to set it up in the first place." She added that "sometimes a proposal that comes in through the regular grant making process and is voted down will catch the interest of a family member who will then give through a discretionary grant."

Tina Fanucchi-Frontado, president of SB Philanthropy in Santa Barbara, is helping a donor family set up a new foundation that will begin grantmaking in spring 2012. "One big issue was discretionary grant funding and whether they could be for anything or should be more restrictive," Fanucchi-Frontado explains. The family has decided that board members will each have $30,000 in discretionary funds, and that the grants can be given outside the foundation's focus areas, but must follow the foundation's giving guidelines. In addition, with the privilege of making the grants come some responsibilities. "There is a check list they must go through," Fanucchi-Frontado says. "They have to meet with the nonprofit's CEO, have a concrete understanding of the organization, give a report to the rest of the board, and seek their approval before the grant is made. They'll also have to work with the nonprofit to fulfill their final reporting requirement. It will be almost as much work as a regular grant."

Phil Henderson, president of the Surdna Foundation in New York City, says his board sees value in providing a small budget for discretionary grants. "The discretionary grants are directed to non-profits whose mission is important to

Seeking the "Unique and Innovative" through Discretionary Grants

When some CEOs join a family foundation, they try to wean the trustees off of what is often a long standing practice started by the donors to designate grants to their favorite charities in amounts that eat up a large chunk of the grants budget. Greg Cantori took the opposite approach when he was hired by the Marion I. and Henry J. Knott Foundation in Baltimore 11 years ago. He worked with the board to create a discretionary grants program where there had not been one before. "I saw it as a way we could make some small grants that are unique and innovative," Cantori explains.

The Knott board has 28 trustees, half lineal descendants and half spouses. Each member may designate up to $2,500 annually. Cantori has $20,000 at his disposal. Grants must be at least $500. Here's where the Knott program differs from the typical discretionary grants program:

Board members don't necessarily have to initiate them, and the process is very transparent. The foundation seeks proposals by publicizing its discretionary grants on its website. Grantseekers are invited to submit proposals which must fit the foundation's grant guidelines, including geographic and program restrictions.

The requests are put on a list that Cantori and staff circulates to the board members each month to see if any of them want to designate one for a grant. "We usually have a dozen or less," he reports. Board members can pick from the list or propose their own grants, but all must fit the guidelines. Sometimes a proposal on the list will pique the interest of more than one board member, so they will pool their grant allocation.

"Sometimes these are the most amazing grants we've ever made," Cantori says, often for small projects the trustees would never have known about otherwise. And the small grants make a big difference. After the tragic death of a young Baltimore boy from an untreated tooth infection because his family couldn't afford dental care, the Knotts gave $2,500 to an advocacy group to make a short but moving DVD for Maryland legislators about the need for services. The DVD was credited with helping pass universal dental care legislation.

Knott said the program gives trustees the chance to take risks and not just succumb to the "proximity effect," that is, funding nonprofits they know well or might be more personally beneficial. "We tend towards caring about those things that are closest to us," Cantori explains. Through the Knott Foundation's discretionary grants program, trustees have an opportunity to give to things they have no connection to, or first-hand knowledge of.

The foundation's discretionary grants program also allows for much more flexibility than the foundation's three grant cycles a year. The board can address emergency needs. One grant helped a small nonprofit replace computers that were stolen. Unfortunately, the new computers were stolen, too. So a new $2,500 grant covered installation of a security system. "We probably should have made that grant the first time," Cantori laughs.

Board members and Cantori each have to submit write-ups on each discretionary grant request they make. Although the full board approves discretionary grants retroactively, no check is cut until the three grant committee chairs review the grant for compliance. If a grant is rejected by the committee chair, it can be appealed to the board's executive committee. Recipients are required to submit a brief final report as to the outcome of the grant.

Cantori along with his staff, is now exploring a next generation board for the family's youth, with funds for their grantmaking coming from their parents' discretionary grants.

[*See page 13 for the Knott Foundation's discretionary grants policy*.]

them personally but which may or may not fit within the focus areas of the foundation's regular grantmaking." He notes that selected grants have stimulated board member collaboration. "I've seen some bartering, combining their grants for one person's chosen organization one year and then doing the same for another person's choice the next." Surdna's board members each get $40,000 a year in a total grantmaking budget of about $35 million.

THE IMPACT OF THE TOUGH ECONOMY

The stock market crash of 2008 made a big dent in foundation assets while simultaneously creating increased demands on many nonprofits. That led some families to look at discretionary grants as a place to cut back in order to maintain as much money as possible for regular grantees.

The General Service Foundation in Aspen, Colorado, had for many years offered discretionary grants to their trustees but in very small amounts, according to Executive Director Lani Shaw. "The family had always encouraged board members to do their own personal giving outside of the foundation, and agreed that the foundation should emphasize broader collective grantmaking outside of personal interests."

The $60 million foundation has 13 trustees including four non-family members. Until 2009, every family member got $10,000 in discretionary grant money as did Shaw. But after the stock market crashed, the board decided that only the four non-family board members should have the grants, Shaw explains. One unexpected outcome of the move was the reaction of grantees. "They told our program officers they appreciated the sacrifice the family made for the benefit of their grantees."

That policy is still in place, although Shaw acknowledges that some board members would like to see a return to discretionary grants for all trustees. "Board members are not compensated for their service, so they really do appreciate the chance to enhance their individual giving in this way." Shaw also points out that the discussions that flowed from individual discretionary grants helped the fourth generation build relationships with each other "because they could get a better sense of what issues their cousins were interested in." Now the board benefits from learning about the grants made by the non-family trustees. "They bring us interesting projects that are complementary to our mission but often expand into a different strategy or constituency."

Determining the Amount of Discretionary Grants

The plunge in the value of endowments caused some foundations to reconsider the way their discretionary grants policies were structured financially. Usually, a policy specifies either a total dollar amount or a percentage of the annual grants budget. It's more common for foundations to give each board member a set amount that doesn't change. For example, if the policy allows each board member $10,000 a year and there are five board members, then it will always be $50,000, unless the board expands. But if the market tumbles, that dollar amount represents a bigger percentage of the total grant making budget than in the past, right at the time that core grantees are in even greater need of support.

If instead the policy bases the grants on a percentage of the total annual budget and then the market surges, more dollars are going out through discretionary grants than the foundation may have originally intended. Regardless of which approach you use, dollars or a percentage, it's wise to review your policy as part of your annual budget setting, to make sure the amount you are allocating to discretionary grants is in line with what the board intends for these grants to accomplish.

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The Pardoe Foundation's five board members had been getting $10,000 but decided to cut that in half in 2009, according to their advisor, Mary Phillips. "Some directors waived it entirely." Since then, the amount has gradually returned to pre-2009 levels.

The drop in the value of endowments has led some foundations to consider setting their discretionary grants program allocations at a percentage of the annual grants budget rather than a set dollar figure.

AVOIDING CONFUSION FOR GRANTEES

One significant problem with discretionary grants is that nonprofits can get confused about what the foundation funds, particularly if discretionary grants are allowed to be made outside of the foundation's mission and guidelines. One way to avoid that is to be as transparent as possible about the process. For example, the Dyson Foundation posts their policies about discretionary grants prominently on their website along with a listing of past grants. Also, award letters make clear that the grant is outside Dyson's normal funding process and is only being made at the request of an individual board member.

Executive Vice President Diana Gurieva said that the foundation likes the program "because it helps our board members not bring their own agendas to the table. Here they are approving grants of $15 to $17 million a year, and their favorite charity might not fit the guidelines."

Here's how the Dyson Foundation website describes the discretionary grants program:

'This program area allows Foundation directors and officers to recommend a certain amount of grant funding to eligible nonprofit organizations that they select. While these grants may not reflect the foundation's overall funding priorities, they do reflect the diversity and creativity of the Foundation's directors. Recent Directors' discretionary grants can be seen here. Recommendations for funding in this area are, in all cases, initiated by the foundation direc- tors and officers. Uninvited proposals or inquiries will not be considered.'

DISCRETIONARY GRANTS AS A NEXT GENERATION TRAINING TOOL

Foundations often use discretionary grants to train the younger generation about grantmaking. One respondent to the National Center's survey said discretionary grants "are used to build collaboration among 3rd generation members who are in training to become eligible for board service."

Ginny Esposito, president of the National Center, says that such grants let young family members "learn to work together and learn how a foundation makes grants." She adds that discretionary grants are just one tool. "I encourage families to open their children up to the entire process, such as the investment process and other financial discussions, so they don't think that the foundation is only about making grants."

Foundations have also used discretionary grants as a retention tool for younger board members. One respondent in the National Center's survey said the amount of grant money the third (youngest) generation board members are allowed to designate increases with time served on the board, "starting with $1,500 and increasing to $5,000 and $10,000." This approach may be in response to the desire of the younger family members to, as one National Center survey respondent put it, "realize their own philanthropic interests—as distinct from that of their parents'."

Staff-Only Discretionary Grants Produce Numerous Benefits

At the Harry and Jeanette Weinberg Foundation in Baltimore, Maryland, it's not only the board that has the opportunity to recommend discretionary grants, but also each of the employees. On an annual basis, each staff member who has been with the foundation for at least a year has the privilege of recommending one $10,000 grant for a nonprofit that meets the foundation's mission. Foundation President Rachel Monroe sees so many benefits to the program that she has encouraged other foundations to consider it for their organizations.

"It's a powerful change in thinking about the foundation's work," says Monroe. "We have extraordinarily smart people on our staff who might work on only one aspect of the grant making process, and are not involved in the broader process, including determining which grants are ultimately approved by the board." With the staff discretionary grants, everyone—from the receptionist to a program assistant to a program director and the foundation's IT professional—gets deeply engaged in a process that mirrors Weinberg's regular grantmaking process. They have to research the nonprofits, meet the leadership, go on site visits, seek external opinions from people who know the organizations, and then make their case in writing for how the organization fits with Weinberg's mission and guidelines, and why they are recommending it for a grant.

It's a lot of work, so employees get time off to do their research and site visits, which usually adds up to a day or day and a half. Monroe then reviews the grants and recommends them to the board for approval. Then comes the best part. Every summer, the foundation hosts a large celebratory luncheon where the employees reveal the organizations they picked and hand out the checks to the nonprofits' representatives in front of a ballroom full of community leaders. At the July 2011 luncheon, for example, 15 employees gave $150,000 to local nonprofits providing services to disadvantaged and vulnerable individuals and families.

"Every year it's so emotionally powerful that I worry that the next year won't be as good, but then I'm never disappointed the next time," Monroe says. She recalls, for example, the young woman who gave her grant to a homeless shelter for women and children. The staff member explained that the organization had strong leadership and was having a big impact. "But that's not the only reason I'm making the grant," the young woman explained. "I'm making it because I was born there. I've experienced the cycles of giving and receiving," and she was so grateful the foundation let her be on the giving end. This woman is an extraordinary professional and person and the foundation is proud to have her on the professional team. Another employee gave a grant to the House of Ruth—this employee was a client of the organization in years past. And yet another employee gave a grant to the local Hospice in memory of the husband of a former Weinberg employee who had been compassionately cared for at the end of his life.

With an annual grantmaking budget of approximately $100 million, the employee discretionary grants are a marginal amount of the overall grant budget. Yet, according to Monroe, they yield big dividends for the organization. The program builds teamwork, increases commitment to the foundation's mission, and helps with staff retention and morale. The staff even improve their public speaking skills through the luncheon presentations. "I can't think of anything more effective," Monroe concludes.

Even foundations with only a few staff can launch such a program. Monroe is happy to share the materials she developed to help her staff understand the program and prepare their grant proposals. She also recommends "packaging the award so it has special meaning" and can be applied differently for each foundation. For example, at a smaller foundation, one staff member could simply take 10 minutes at a board meeting to present a grant. Contact Monroe at rmonroe@hjweinberg.org for more information.

MATCHING GRANTS PROGRAMS

Some foundations provide matching grants in addition to or instead of discretionary grants. The latest COF member survey indicated one-fourth of their family foundation members offer matching grants to individual board members.

"Traditionally, this has been mostly a corporate concept; matching grants in family philanthropy is more recent," Esposito says. "It's a way to encourage the personal philanthropy of individual family members." These grants are especially popular with younger generation family members who may not have the financial resources of their parents or grandparents. Family foundations that provide a match for either a financial contribution or volunteer hours typically make this contribution accessible to everyone. Some foundations even make the match higher: two to one, for example, if they are dealing with young family members with little money. Encouraging individual philanthropy and starting at younger ages answers one of Esposito's concerns that "too many kids whose families have foundations have the impression that philanthropy is about giving away someone else's money."

The Howard Dobbs Foundation, for example, has a matching grants program for family members up to 18 years old for both volunteering and fundraising for the nonprofits of their choosing.

Some extend the matching opportunity to staff, which can be a much appreciated benefit and may help with staff retention. The Dyson Foundation staff members get to award up to $1,000 annually in matching grants a year, and during the foundation's 50th anniversary year, that amount was upped to $5,000. The Meadows Foundation in Dallas doesn't use discretionary grants but does provide matching grants of up to $20,000 annually for all staff as well as board members. "We do it to encourage philanthropy in our own ranks," says Meadows Foundation President Linda Evans. "All of the foundation's matching grants are anonymous and confidential," Evans adds, "and they can't be used to fulfill someone's pledge. No benefit can accrue from it."

Matching grants are especially popular with younger generation family members who may not have the financial resources of their parents or grandparents.

The Knott Foundation has a matching grants program, allowing each board member and each of Cantori's three staff members a one-to-one match up to $5,000 annually. "Nearly everyone maxes it out," he says.

WHAT TO PUT IN A DISCRETIONARY GRANTS POLICY

Any discretionary grant program should be covered by a written policy that is understood by all participating individuals. At a minimum, it should specify:

- How much money individuals may designate annually (either a dollar figure or a percentage of the total grantmaking budget)
- Who is eligible for the program (options include the family board members, non-family board members, board chair only, executive director, staff, etc.)
- Types of organizations that are eligible and whether the grant must fit the foundation's mission and/or guidelines
- Any requirements of the individual designating the grant, e.g. submitting a written proposal
- Requirements of the grantee, including submission of a 501(c)3 determination letter and whether a final report is required
- Grant approval process, e.g. the executive director reviews the grant for compliance with policy and the full board approves retroactively at their next board meeting.

See the following page for an example of a policy provided by the Knott Foundation.

CONCLUSION

Roughly half of family foundations use discretionary grants. Among other things, supporters suggest that discretionary grants help with geographic diversity, next generation training, and keeping the board's agendas free of personal passions. Critics counter that discretionary grants take them off mission, don't get the same scrutiny as core grants and confuse grantees, to name a few.

Whether they are a useful tool for an individual foundation depends on the considerations highlighted in this *Passages*. From our research on discretionary grants, it's clear that changing circumstances have led many foundations to review their earlier decisions. One factor that is leading to reconsideration—aside from the economic climate—is the addition of the next generation to boards. New voices inevitably bring new perspectives on how the foundation can be most effective, including the value of discretionary grants, either pro and con. Remember that no decision is set in stone, and every policy deserves review from time to time to make sure it is contributing to the effectiveness of the foundation's philanthropy.

DISCRETIONARY GRANTS POLICY OF THE MARION I. & HENRY J. KNOTT FOUNDATION

1. All Trustees have the option to annually designate up to $2,500 of their individually allocated $5,000 grant funds as discretionary grants of not less than $500 per grant.
2. The Executive Director may annually designate up to $20,000 in discretionary grant funds of not less than $500 and no more than $10,000 per grant.
3. Discretionary grants must be for organizations and institutions that fully meet the guidelines of the Marion I. & Henry J. Knott Foundation.

   For example, the discretionary grant may not pertain to scholarships, individuals, annual giving, pro-choice causes, public education, politically-oriented activities, or fulfilling a pledge.*
4. Trustees and the Executive Director must prepare an abbreviated grant profile for each discretionary grant they submit. It is the responsibility of each Trustee and the Executive Director to provide adequate proof of the qualifications of the non-profit (board of directors list, (501-c-3) status, an audit or IRS form 990) including the purpose and rationale for the grant.
5. All Trustee discretionary grants must be received by November 15th.
6. Discretionary grant profiles are reviewed by the Grant Committee chairs and must be unanimously approved. Discretionary grants will be paid to the organization within 14 days from the date of approval. If a discretionary grant is denied by a Grant Committee chair, that denial may be appealed to the Executive Committee. A unanimous denial by the Grant Committee chairs may not be appealed to the Executive Committee.
7. No personal benefit or recognition should accrue to a Trustee or the Executive Director through the distribution of discretionary grants. (Membership dues, fees, tickets or other benefits to any disqualified person.). No grants may be awarded to organizations where the recommending Trustee or Executive Director has a financial or contractual relationship.
8. This policy shall be reviewed each year prior to the Annual meeting in December.

** Basic Rule: Under existing law, the IRS has taken the position that using charitable funds to satisfy legally binding personal pledges of an individual results in an impermissible benefit to that individual. A legally binding pledge is a personal debt and if a disqualified person (Trustee or staff) makes such a pledge, it's an act of self-dealing for a foundation to pay that debt.*

A legally binding personal pledge is a sufficiently clear promise to pay that can be enforced in state court. If a charity can demonstrate that it has reasonably relied on the promised funds, the courts are likely to enforce the pledge.

Additional Resources:

The following additional resources, along with a variety of sample discretionary grants policies, are accessible through the Family Philanthropy Online Knowledge Center, available to NCFP Friends and Subscribers at www.ncfp.org:

- "Discretionary Grants: Encouraging Participation... or Dividing Families?" by Jason C. Born, *Passages*, Washington, DC: National Center for Family Philanthropy, 2001.
- "Discretionary Grants: Engaging Family... or Pandora's Box?" featuring Susan C. Price, Karie Brown, and Greg Kozmetzsky, Family Philanthropy Teleconference Series, Washington, DC: National Center for Family Philanthropy, December 8th, 2011.

The Author:

Susan Crites Price is the author or co-author of six books including *The Giving Family: Raising Our Children To Help Others* (Council on Foundations, 2001, revised 2003), and her articles have appeared in such newspapers and magazines as *The Washington Post and Working Mother.* She also has authored two family foundation histories. A frequent speaker on philanthropy issues, she is a former vice president of the National Center for Family Philanthropy and the former managing director of family foundation services at the Council on Foundations.

Jason C. Born, Editor

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WE WELCOME YOUR COMMENTS.

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