CHAPTER THREE

FORMULAS FOR DIVIDING GRANT ALLOCATIONS

The geographically dispersed foundations in this monograph varied widely in their approaches to dividing grant allocations. In an effort to be scrupulously fair—or in some cases to avoid family squabbles—some foundations devised precise mathematical formulas for dividing funds among geographic and program areas. Others took the opposite approach; they operated without any rules or policies. Somehow, discussions about formulas never came up in those families, and the grants the boards allocated were accepted without opposition.

Each family foundation has its own distinctive culture, traditions, style, and values that color how it operates and the choices it makes. Deciding on formulas for dividing allocations is no exception. The formula the foundation settles on says something about the family's values and attitudes regarding money, their ideas about fairness, and their family relationships. Some families handle money matters well; others fight intensely over money. Geographic dispersion forces many family foundations to reconsider how it distributes its funds, and the issues that arise suggest that dividing grant allocations is not merely a matter of formulas. It can also involve profound and powerful emotions.

Chapter Three looks at six approaches geographically dispersed foundations use to allocate grantmaking funds:

- Award largest percentage to the donors' community
- Divide funds among program areas
- Allocate funds without a formula
- Divide funds by family branches

• Divide funds among communities where trustees live

• Provide discretionary funds

AWARD LARGEST PERCENTAGE TO THE DONORS' COMMUNITY

Loyalty to the place where donors lived and prospered was a strong sentiment among the family trustees interviewed for this monograph. The affection and respect that trustees of the Beveridge, Stocker, and Leighty foundations feel for the donors is reflected in their commitments to continue funding in the donors' community. Some, including the Beveridge and Stocker Foundations, have begun thinking about setting up separate charitable vehicles to ensure long-term funding. The Leighty Foundation and Needmor Fund have already established donor-advised funds within community foundations.

The Ethel and W. George Kennedy Family Foundation uses a plan that commonly serves as a model for others. The foundation has assets of $31 million. The largest portion of funds is reserved for the community where the donors lived, and the rest is divided among the communities where family trustees live.

George Kennedy, the founder, moved to Miami in 1924, where he established his business and where he and Ethel raised their six children. His daughter, Kathleen, the foundation's managing director, says that she and her five siblings feel strongly that the foundation should stay true to their parents' lives: they made an impact on Miami and so should the foundation. Recently, the board narrowed the foundation's guidelines to restrict unsolicited grant proposals to Dade County. Because one family trustee lives in North Carolina and a non-family trustee is in Tennessee, the board approved a motion to fund proposals initiated by trustees living in those states and in the towns in Florida where the other trustees live. But, they all agree that the lion's share of their giving belongs in Dade County.

The Stocker Foundation follows a similar model. The largest percentage of funds goes to the donors' home town of Lorain County and a somewhat smaller percentage to Tucson where two second-generation daughters live; the remainder is divided between the two cities where the third-generation members live. With only three grandchildren on the board, this funding model has worked well. But how will the pie be divided when all eight grandchildren serve on the board? Currently they live in Cleveland, Seattle, Las Cruces, Albuquerque, San Francisco, and Brazil. Given the third generation's peripatetic bent, Jane Norton, a daughter of the donors, suspects that when they take over it may make more sense to use a funding model based on common interests rather than on geography.

The Beveridge Foundation also gives the greatest portion of funds to the donor's community, but with a slight variation. Of the $2.5 million it gives annually, the board takes $1 million off the top to maintain the park the donor created in Westfield. The remaining $1.5 million is divided in two parts. One half goes to two counties in western Massachusetts and the remaining $750,000 is awarded to organizations in the communities where the six family trustees live. With that money, grants are made strictly on the basis of merit. "We consider whatever comes over the transom," says Philip Caswell. "If we like it, we fund it. There's no quibbling about where the grants are made because the trustees feel a sense of fairness about how the votes go." Even though the board doesn't track how much money is awarded to each community, the individual family trustees do. At a recent allocations meeting, for example, there was a preponderance of grant requests from New Hampshire, and Caswell recalled that it was the family member from New Hampshire, not the others, who asked that the imbalance be corrected.

DIVIDE FUNDS AMONG PROGRAM AREAS

The Gund Foundation and the Merck Family Fund divide their funds by program areas. The Merck Family Fund allots roughly 60 percent to organizations that protect the environment and 40 percent to organizations working on community building in urban areas. The percentages used by the Gund Foundation for dividing funds among its six program areas—community development, civic affairs, arts, environment, education, and human services—are also fixed. Although David Bergholz, the executive director, checks in annually with the trustees to see whether they want to make adjustments, the amounts allocated to each program generally vary little from year to year.

Typically, the guidelines of a family foundation designate program areas and the board awards grants to organizations that fall within those areas. The Durfee Foundation in Santa Monica has devised its own system. On the whole, the Durfee Foundation functions with a minimum of rules, and its approach to dividing funds among programs is no exception. The foundation gives away a little more than $1 million annually As mentioned earlier, each trustee creates his or her own program and is responsible for overseeing it through each funding cycle. The amount allocated to each trustee's program varies considerably, yet family members have never competed over money for their programs. The science program, now about 10 years old, is the foundation's only national program. Because recruiting, selecting, and assigning 70 students to research stations is more work than the trustee can handle on his own, the foundation hired a nonprofit organization to administer the program. Last year, the board allocated $300,000 to the science program. By contrast, the music program is new and still in a trial period. It received $125,000 to operate for the next two years. What makes the Durfee trustees unusual is that they do not put a dollar value on their programs; rather, they accept that programs so different in design and scope require different budgets to achieve their goals. This approach to cutting up the pie works well for the Durfee Foundation because the family is remarkably free of rivalries; it would likely lead to conflict if tried by less harmonious families.

ALLOCATE FUNDS WITHOUT A FORMULA

The Horizon Foundation was established in 1997 with assets approaching $9 million. The all-family board—the donors, two sons, and two daughters-in-law—live in New Jersey and Massachusetts. The foundation has a broad mission that encompasses family trustees' interest in the environment, leadership training, art history, and programs for children. Besides funding in the counties where family members live, it also supports four counties in Maine where the parents have a summer home and where the brothers attended camp as children.

Sandy Buck, a second-generation family member and full-time staff person, does most of the work of the foundation. With fewer than two years of grantmaking under its belt, he says the board is reluctant to set any hard rules regarding division of funds because it is still working to get its grantmaking on track. One hurdle is the imbalance of proposals. Because the foundation is Buck's full-time obligation, he initiates more programs from Massachusetts where he lives than the other trustees initiate from New Jersey where they live and work. Buck hopes to correct that imbalance by working more closely with the Princeton

Area Community Foundation, a community foundation in Mercer County, New Jersey. A second hurdle is the matter of geographic limitations. Buck's brother and sister-in-law have a second home in Idaho and they want to add that county to the eight counties in which the foundation already funds. Buck doubts that the foundation is ready to expand its funding areas. "We already have a lot on our plates that we haven't addressed thoroughly enough. Tracking eight counties is enough. If we add another, I may suggest subtracting an existing one." The family will take up the matter at an upcoming board meeting.

As to the best method for dividing funds among geographic areas, Buck says that, for the present, the board decided not to restrict itself concerning geography in any way. "If we think a proposal is good and it falls within the guidelines, then we fund it. We've decided to let it happen where it's happening best," says Buck. "Of course, the board may change its mind if some counties keep getting more grants than others. But we're a new foundation and it takes time for nonprofits to learn about us. I'm hoping that we'll see more interest soon from the underrepresented counties."

The board of the Mustard Seed Foundation in Arlington, Virginia has managed to allocate grants amicably for sixteen years without a formal policy for dividing the funds. The foundation gives primarily start-up grants to individuals or organizations doing Christian ministry mission education. Eileen Bakke, the board's chair, says that the fact that 12 family board members live in six states has no bearing on where the foundation funds; it has never linked grants with geography. In fact, 50 percent of the grants go to international programs.

The foundation was endowed with stock from AEJ Corporation, owned by Eileen's husband Dennis. Each year the business makes additional contributions to the corpus. In recent years, the contributions have increased substantially and the foundation is now giving away between \$4.5 to \$5 million annually. "We're lucky to have plenty of money to give away," says Eileen Bakke, the board chair, "but even when we had less, our board members never had feelings of territoriality about our grantmaking. We certainly have particular interests we lobby hard for, but we've never had rivalries over how much money went to which community. We're more interested in the merits of the proposals."

The foundation has another reason for avoiding formulas for dividing funds. Currently, three generations of the Bakke family serve on the board, and both sides of the family are represented. "Our goal is to build board unity," says Eileen. "We want to create the feeling that we are one family working together. We're not concerned about working out ways to divvy up the grants among individuals, communities, or programs. We're generalists and our grantmaking reflects that philosophy."

DIVIDE FUNDS BY FAMILY BRANCHES

Having the right to select their own program areas was important to The Leighty Foundation trustees. At the same time, they wanted to work together as a family board and educate one another about organizations and issues in their communities. To accomplish both aims, they devised a two-tier system for awarding grants. The foundation gives away about $350,000 a year. Fifty percent is designated as discretionary funds and divided among the family branches. Because Ike Leighty is the founder, he gets the largest share, 30 percent; the families of his son and daughter each get 10 percent to give away as they choose. The other 50 percent is reserved for proposals that family trustees have solicited from their communities and presented to the board. "The two-tiered system gives us the best of both worlds," says Jane Leighty Justis. "We have discretionary funds that each family branch can give away, and we have other funds that need board approval."

Unlike The Leighty Foundation, which took steps to preserve family unity, the second generation of the Ralph Smith Foundation intentionally wrote policies that, in effect, created separate funding domains for each family branch. Ralph Smith established the foundation in 1952. When his three children took over the foundation after his death, they established the practices of reserving one board seat for each family branch and dividing funds equally among the branches to allocate as they saw fit. Harriet Denison, a third-generation family member, says that the second generation chose this system to avoid family disagreements.

Denison, who lives in Portland, Oregon, has one seat on the board; her uncle, who lives in Tucson, has another. The third seat is rotated among her aunt's three sons based in Kansas City and Atlanta. The foundation has assets of $22 million, and once a year the trustees get together in Kansas City to discuss the foundation's investments with their banker and to decide how much money they can give away.

Last year it gave away $1.2 million, or $400,000 per branch. Foundation law requires that all grants be approved by the board as a whole. Because the whole board doesn't get together for allocation meetings, they circulate a letter listing the grants for each board member to approve. The grants are then reviewed by the bank to make sure the organizations have 501 (c) (3) status.

In effect, the three branches of the family function as mini-foundations. The Portland branch operates most formally. It has its own pseudo board (Denison, her mother, brother, sister and sister-in-law), mission, guidelines, and due dates for proposals. It describes itself as proactive in its approach to supporting small grassroots organizations working for systemic and institutional change. The other two branches function more informally and generally support established organizations. Denison's uncle gives each of his children a discretionary fund and gives away the rest himself. Her aunt, although no longer on the board, follows a similar system with her three sons.

Denison takes a pragmatic view of this arrangement. "Our values and funding interests are so different that it would be difficult for the three branches to function as one board. Maybe because we're an older foundation, we don't have the romantic notions about keeping the family together that I hear from other foundations. I didn't grow up with my cousins, and we don't have much in common. Those in my family branch, however, are very close. We get along well and enjoy working together. It would get pretty messy if the branches tried working together."

In cases where family members are far apart in funding interests and geography, some families prefer to split the foundation into separate legal entities. The Jules and Doris Stein Foundation did just that in December 1997. Doris Stein set up the foundation in 1981 after the death of her husband, the founder of MCA Corporation. The foundation had assets of $60 million and no stated mission other than Doris' wish that her four children—two from her first marriage and two from her second—become actively involved in the family's philanthropy. To motivate them, the foundation created a matching gift program. Each member of the second generation received a discretionary fund of $250,000 annually to give away as they chose on the condition they matched that amount with $25,000 of their own money. The 10 third-generation board and advisory board members were each given discretionary funds of $75,000, which they matched with $7,500 of their own money.

The result was that the fourteen family members developed fourteen separate giving programs. While Doris' wish for her children was realized—the family members are all passionate about their giving—the discretionary fund approach set the stage for the division of the foundation. With family members living in seven states and following their own interests, it was difficult for the foundation to track and evaluate grants. The four family trustees—two second generation with lifetime terms, two third generation with five-year terms—decided it would be easier to function separately. After paying off existing grant obligations, the corpus was divided equally among the four family units, with each receiving $16 million to start their own foundations. Although the family members within each branch still do not all live in one place, they are less spread out than before and better able to limit the program areas they fund.

With assets of $22 million, the Ralph Smith Foundation is large enough to have followed the same road as the Stein Foundation. Asked why it hadn't divided into three legal entities, Denison said there was no reason to do so. "My branch of the family doesn't feel a need to change the system. The kind of funding we do is a good match for what the state needs and what our board does best. Oregon doesn't have a lot of foundations, and we have carved out a funding niche in the state."

The Ralph Smith Foundation is not alone. Other geographically dispersed foundations, too, opt to function as separate entities under one umbrella. In some cases, the foundation is too small to divide or the family doesn't want to deal with the legal hassles of splitting up. In others, the families feel a loyalty to the donor to keep the foundation together. Whatever the reasons, the board of directors is the legally recognized governing body of the foundation. The family branches or individual members may be operating separately, but they are still legally responsible for one another's actions.

DIVIDE FUNDS AMONG COMMUNITIES WHERE TRUSTEES LIVE

The founding board of one Florida family foundation was composed of the donor, his wife, and three of their four children. Later, one of the second-generation members retired and four third-generation family members came on board. The eight family members currently on the board live in five states—Oregon, Colorado, Missouri, Pennsylvania, and Florida—and the foundation office is located in Sarasota, Florida, where the donor and his wife now live. When the foundation began allocating funds, it divided the money equally among the trustees to distribute in their communities. But when the number of trustees grew from five to eight, the donor suggested a new formula on the grounds that his and his wife's allotment had dwindled to the point where they couldn't sustain their commitments. Moreover, he felt that younger family members new to grantmaking were not ready to give away large sums.

The family worked out a new formula for dividing the money based on trustees' years of experience: first-year board members get $10,000 each, second-year board members get $50,000 and board members who have served three years or longer get $75,000. Last year, for example, the money was divided as follows: Of the $700,000 the foundation gave away, $200,000 went to a multi-year grant to a prominent school of journalism for investigative reporting. Four trustees got $75,000 each, one trustee got $50,000, two trustees got $25,000, and the first-year board member got $10,000. The remaining $90,000 was used to pay multi-year grants.

PROVIDE DISCRETIONARY FUNDS

One of the most popular ways to stimulate and engage family members' interests in grantmaking is by giving them discretionary funds to distribute how and where they choose. The practice makes particularly good sense in geographically dispersed families, especially when funding is tied to a community where family members no longer live, the foundation has a narrowly focused mission, or when the younger generation members have little enthusiasm for the program areas.

The Jules and Doris Stein Foundation was unusual in its practice of designating most funds as discretionary and dividing them equally among the trustees. More commonly, foundations set aside a small portion of their giving for discretionary funds and divide them among family branches, as The Leighty Foundation does, or among individual board members, as the Frees Foundation in Houston prefers. Its board members—the donors, Norman and Shirley Frees, their three children and their spouses, and four grandchildren—reside in four states. The foundation, which has assets of $15 million, funds locally, nationally, and internationally. To keep board members connected to their own communities, trustees receive an annual discretionary fund of $25,000 to give away as they choose. Other families use discretionary funds to stimulate interest in philanthropy in young family members long before they are old enough to join the board. When family branches live far apart, this practice can help to forge links among young cousins who don't know one another well. Years later when they come together, they will at least have shared the experience of making charitable gifts when they were young.