



CHAPTER TWO

FUNDING IN AREAS WHERE FAMILY TRUSTEES NO LONGER LIVE

Today, it is not uncommon for family foundations to find themselves funding in geographical areas where no family trustees live and, for that matter, where no future generations are likely ever to live. In some cases, trustees have no say about where grants are given; the donors of those foundations left instructions in their trusts legally binding successive generations to distribute funds in a particular place. More often, though, trustees voluntarily continue the practice of funding those communities out of respect for the donors. Usually it is the place where the donors lived and prospered, and the entire family feels a debt of gratitude to the area.

No matter how good their intentions, however, many successor trustees learn that it is not always easy to keep such a commitment. Third-and-fourth-generation trustees may no longer live in the donors' community—indeed, some may never have lived there—and find it difficult to sustain interest in a geographic region they do not know and to which they lack any personal connection. Moreover, they are unsure of the best way to continue serving it.

One family wrestling with that dilemma is the Holley Foundation in Detroit. Since its inception in 1944, the foundation has funded organizations that fall under a broad mission of helping disadvantaged young people receive an education. The three second-generation trustees allocated the largest portion of funds to Michigan, where the donor had lived and where one trustee resided, and divided the rest between the home towns of the other two trustees. Today, the circumstances are far more complex. The size of the board has quadrupled: currently, three family members from each of the three branches plus three non-family members serve on the board. The 12 trustees live in seven

states. Furthermore, the family members, who grew up in different towns, don't know one another well and, predictably, have diverse interests. What's more, none of the family trustees lives in Michigan.

The board has scheduled a series of retreats to consider its role in southeastern Michigan philanthropy along with the philanthropic interests of its geographically dispersed board members. Barbara Frank, the foundation's president, is optimistic about the outcome. Working in its favor is the board's commitment to the foundation and the positive energy the trustees bring to their discussions. "What unifies us is our admiration for our grandfather and our shared memories," says Frank. "He was a generous and creative man, and we all want the foundation to reflect his spirit."

Those who strive to honor the donors' attachment to a community say that their biggest challenge is staying sufficiently well-informed about the area to make good grantmaking decisions. Chapter Two explores how geographically dispersed boards have responded to this challenge, including:

- Educating trustees about the community,
- Drawing on community resources,
- Bringing non-family community members onto the board,
- Setting up separate funds,
- Taking legal action to change the trust, and
- Spending out the corpus.

EDUCATING TRUSTEES ABOUT THE COMMUNITY

When family trustees live outside the community in which the foundation funds, the board must make a special effort to keep board members connected to the area. Besides circulating information about grantees and local developments affecting the foundation's program areas, many foundations look for opportunities to educate out-of-town trustees about what is happening locally.

Board meetings are ideal occasions for inviting local experts to address out-of-town trustees. David Bergholz, executive director of the George Gund Foundation in Cleveland, uses three of his board's quarterly meetings to educate the board about the greater Cleveland community. Although none of the family mem-

bers currently lives there and nothing in the bylaws ties the foundation to the area, the family still chooses to award grants primarily in Cuyahoga County in northeastern Ohio where the founder, George Gund, and his wife raised their six children.

The Gund Foundation is blessed with abundant resources. With assets of \$500 million and annual grants of more than \$20 million, the foundation—the largest private foundation in Ohio—plays a critical role in local philanthropy. Its prominence in the community allows it to attract prestigious guest speakers for board meetings, such as the mayor, school superintendent, or local college president. The Merck Family Fund, too, takes advantage of board gatherings to educate its trustees. In fact, at a recent retreat held in New Hampshire, the staff invited sixteen local presenters to talk to the board about forestry, one of the foundation's key program areas. The large gathering of presenters prompted one board member to comment that the retreat was more like a congressional briefing. Smaller family foundations, too, can invite knowledgeable local people to speak at their board meetings. Civic leaders, college professors, and community organizers would welcome the opportunity to address a foundation board about trends in their program areas and developments in their community.

Some geographically dispersed foundations organize educational tours to engage and educate out-of-town trustees about the community in which the foundation funds. Organizing tours requires careful planning but the payoff is high: trustees spend time together outside the boardroom and have a productive time doing it. Most important, they usually finish the tour feeling reinvigorated about the work of the foundation and what it can accomplish.

During the Gund Foundation's June quarterly meeting, Executive Director David Bergholz takes trustees and senior staff on a tour of the city to visit four or five grantees and to point out developments in the city. The tours spark the family's interest in the foundation's local agenda and give the trustees a better understanding of what the foundation is doing. "Driving around town in a van visiting grantees is a favorite activity of the trustees," says Bergholz. "They enjoy it. They get to meet the grantees and see the range of projects the foundation funds. We have a solid educational experience and always end the day by doing something that builds relationships, like having a social dinner or even going to a ball game."

The board members of the Frost Foundation, headquartered in Santa Fe, live in New Mexico and Louisiana, the two states where the foundation funds. Mary Amelia Whited-Howell, a family member and executive director of the Frost Foundation, says that tours are one of the most effective and enjoyable ways to inform board members about what is happening in each other's state.

The foundation, with assets of \$45 million, funds social service agencies working with low-income children and families in Louisiana and New Mexico. To educate board members about the similarities between people living in poverty in northern New Mexico and rural Louisiana, Whited-Howell takes board members from Louisiana on tours of New Mexico and those from New Mexico on tours of Louisiana. Before each trip, she handpicks organizations and neighborhoods to visit that best demonstrate the needs of the community.

Whited-Howell's efforts to educate her out-of-town board members don't stop there. She also hosts an annual party at her home in Santa Fe to which she invites the Louisiana board members to meet the grantees from New Mexico. "Louisiana people understand how to communicate at parties," she says. "It's a Louisiana thing to get to know people over good food and drinks. They're comfortable doing it and the contacts they make there are meaningful to them. I wish I could invite the Louisiana grantees, too, but it's too expensive to bring them all to Santa Fe."

DRAWING ON COMMUNITY RESOURCES

Besides educating her board, Mary Amelia Whited-Howell draws on a variety of resources to keep herself abreast of developments in the two states where the foundation makes grants. In the past, the foundation distributed most of its funds in Louisiana; now it divides grants between the two states. When family is involved, fairness can easily become an issue. Whited-Howell is sensitive to that possibility and tries hard to maintain an equal balance of grants between New Mexico and Louisiana so that family members in one state don't feel that their area or interests are being slighted.

Running the foundation as she does with the help of a part-time assistant, Whited-Howell naturally comes across promising organizations and projects in New Mexico where she lives. Not surprisingly, then, she submits more proposals to the board from her state than the Louisiana board members do from theirs. To rectify the imbalance, Whited-Howell has redoubled her efforts to increase grants in Louisiana.

"I'm always asking myself if I'm doing enough for Louisiana and whether I've explored enough options," she says. "I try to stay on top of the issues by reading newspapers and doing a lot of telephone work. I visit Louisiana as often as I can and when I'm there I make it my business to meet people and cultivate contacts." As a result of her efforts, she now initiates more proposals from Louisiana than the board members who live there. Among her best sources for leads are other family foundations with which she has built relationships, a nonprofit association the Frost Foundation supports, and local community foundations.

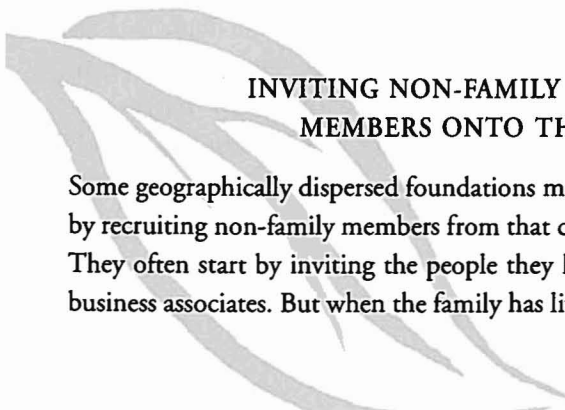
Like many geographically dispersed family boards, the Frost Foundation has discovered a valuable resource in community foundations. A community foundation is a public charity set up to support charitable organizations in a particular region. It distributes money, primarily contributed by individual donors who have established funds within the community foundation. To ensure that the donors' money is well spent, the community foundation must keep its fingers on the pulse of the community. Its program officers get to know the nonprofit organizations in the area and reach out to the larger community, convening briefings for leaders from the private, public, and nonprofit sectors, and building networks of people who care about and are involved in the community.

For small foundations such as the Holley Foundation that rely almost exclusively on family volunteers, organizations such as the Community Foundation for Southeastern Michigan, the Council of Michigan Foundations, and the Association of Small Foundations are troves of information. "We pick their brains about organizations doing good work," says Barbara Frank, the foundation's president. "The Community Foundation for Southeastern Michigan is particularly helpful because the staff know a lot more about what's happening in the community than we do and give us some of our best leads."

It isn't only small foundations that use the services community foundations offer. Jenny Russell says that the Merck Family Fund has graduated from using community foundations as sources of information to enlisting them as advocates to build community support for programs the foundation is promoting. "We fund in Providence, Boston, and New York City. In Providence, the community foundation is the largest player in philanthropy and a natural partner to help us reach our goals."

Community foundations are often storehouses of information about their local areas. For geographically dispersed boards that don't have the time or means to investigate organizations as thoroughly as they would like, community foundations can be invaluable resources. Besides sharing information about individual organizations, they can link up funders who have similar program interests. These connections can be a boon to small family foundations, providing trustees who might otherwise be isolated from the community with colleagues and potential funding partners. Small foundations that want to leverage their funding can join with other small foundations in giving grants to the same organizations.

Community foundations have burgeoned in the past decade and, while all are happy to share information about organizations with callers, they are not equally prepared to handle more time-consuming requests. Some community foundations have affiliate memberships for family foundations. For a fee, they will act as program officers, researching organizations and sending out regular mailings apprising family foundations of developments in the community and of organizations that might interest them. Newer and smaller community foundations, however, may not have the staff or resources to respond to individual requests. Family trustees would be wise to check with the community foundations in the regions where they fund to learn about the programs and services they offer.



INVITING NON-FAMILY COMMUNITY MEMBERS ONTO THE BOARD

Some geographically dispersed foundations maintain close contact with an area by recruiting non-family members from that community to serve on the board. They often start by inviting the people they know—friends of the family and business associates. But when the family has lived away from the area for a long

time, their best candidates may be individuals who have expertise in their program areas and special knowledge of the community. Compatibility is always a factor, of course, and boards need to spend time with candidates before inviting them to be sure they are a good fit with the family and its culture.

The Holley Foundation depends on non-family trustees to provide a bridge between the current trustees and the city where the donor lived and established his business. George M. Holley, who along with his brother Earl invented the Holley carburetor, set up the foundation in Detroit in 1944. Historically, the foundation has given most of its funds in southeastern Michigan. Because none of the nine family trustees lives in Detroit, the board reserves three seats for non-family trustees living in the community. Previous non-family trustees were friends of the donor or of the Holley family and all were interested in continuing the Holley legacy; current non-family members are all active in philanthropy in southeastern Michigan. "The third generation is not as familiar with what is happening in Detroit as we would like to be," says Barbara Frank, Holley's granddaughter. "The non-family trustees give us a perspective on Detroit that we need."

The Beveridge Foundation, located in Boca Raton, Florida, is one of several foundations that rely on non-family board members to inform them about the donor's home town. Stanley Beveridge, the founder of Stanley Home Products, now Inesco Corporation, lived in Springfield, Massachusetts. His children and grandchildren were born and raised there, too, but by the 1980s, they had all moved away. Only one still lives in Massachusetts, but in the eastern half, and the others reside in Florida, New Hampshire, Rhode Island, and California.

The foundation originally brought non-family members on to the board to serve as a compensation committee. Philip Caswell, the sole staff person of the foundation, is also a family member. The family wanted to avoid putting family trustees in the awkward position of evaluating Caswell's performance. It didn't take long for the board to recognize that these individuals—established businessmen who reside in Springfield and have wide contacts in the community—had more to offer the foundation than advice on compensation. Today, they act as scouts for the foundation, reporting on developments in Springfield and sending clippings of newspaper articles about topics they believe will interest the trustees. Every other month, Caswell comes to town to meet with them and to check out organizations they have recommended.

The outside board members are invaluable resources for the foundation, but Caswell worries that finding qualified candidates acceptable to the family may not be so easy in the future. Although the members of his generation moved away more than a decade ago, they have maintained their contacts in Springfield. Outside board members have all been friends of the family and one was a former employee of the company founded by the donor. Two, however, are likely to retire soon, and the board would like to replace them with board members in their thirties and forties. The problem, as Caswell sees it, is not in identifying promising young candidates; it is finding ways for the family to get to know them in a relaxed social setting without telling them that they are being considered for board membership. "We've had a few flops in the past when candidates mistook invitations to meet with the family as invitations to serve on the board," says Caswell. "They assumed it was a done deal and were offended when we didn't select them." Cultivating relationships with prospective non-family trustees will likely be more difficult for the fourth generation, none of whom grew up in western Massachusetts.

SETTING UP A SEPARATE FUND

By and large, the trustees included in this sample wanted to continue funding the community targeted by the donors. At the same time, they recognized that future generations might not feel that commitment as strongly because they will be farther removed from the donors. Born after their deaths, they may know little about the donors or the communities where they lived. To ensure continuous support for the place close to the heart of the donors, some geographically dispersed family foundations are setting up separate funding vehicles such as donor-advised funds and supporting organizations.

The Leighty Foundation funds primarily in the three states where the trustees live, but the trustees all feel a special attachment to Waterloo, Iowa, the family's home town and the home of the founder, Ike Leighty. It is also the location of the family business, Engineered Products Company, Inc., which he sold to the employees a few years ago. Leighty, now in his eighties, is still in good health and active in the foundation. Several years ago, he established a donor-advised fund with the local community foundation, and funds in Waterloo through both The Leighty Foundation and the donor-advised fund. He sees the relationship with the community foundation as helping to ensure the quality of ongoing support in the community after his death.

Setting up a donor-advised fund has yielded benefits the family hadn't anticipated: working with the director of the community foundation became a learning experience for the whole family. Part of her job is doing due diligence in making grants from the donor-advised funds, and she is generous in sharing her thinking with the family. The result is that out-of-town family members not only learn about the issues and organizations in Waterloo, but they also apply what they learn about grantmaking to the funding they do in their own communities.

The Needmor Fund established a different kind of relationship with the Toledo Community Foundation. Toledo was the headquarters of Champion Spark Plug, the company started by the family of Needmor's founder. Although Needmor funds nationally, a separate pool supported by annual donations was set up for Toledo with less rigorous criteria than the national pool. A few years ago the board decided that rather than continue to fund groups that couldn't compete in the national pool, they would work with the Toledo Community Foundation to build the capacity for community organizing in Toledo. An advisory board made up of local family members and non-family community members was created to oversee a program to develop community organizing skills in poor areas of Toledo. Needmor donors pledged \$95,000 a year for three years and the fund itself added \$5,000 per year for a total of \$300,000 used to bring resources to Toledo and provide grants to organizations pursuing an organizing strategy. Needmor hopes that by involving knowledgeable, well-connected people on the advisory board, a funding stream to support community organizing might be built as well.

The Beveridge Foundation in Boca Raton, Florida, faces a different situation and is contemplating a different solution. When the donor set up the foundation, his principal motivation was to provide for a 250-acre public park he had established in Westfield, Massachusetts, near his hometown of Springfield. The Beveridge Foundation is its sole funder, and maintenance on the park, which includes playing fields, wetlands, and trails, now runs about \$1 million annually.

Past and present family trustees take great pride in the park; for them, supporting it has been a top priority. Future generations, however, may not feel equally responsible for it, a risk that is increased by the fact that the foundation's current articles of incorporation do not obligate them to do so. To ensure that the park is always taken care of, Philip Caswell, the board president, has begun researching the board's options.

In the past decade, the Beveridge Foundation's assets have soared to \$56 million, giving it options it didn't have before. The board has considered taking \$20 million from the corpus to set up a supporting organization within the Community Foundation of Western Massachusetts and designating that the proceeds be used to maintain the park in perpetuity. One drawback to that plan is the matter of control: in a supporting organization, non-family members must outnumber the family members on the board. Currently, the Beveridge Foundation family board members also sit on the park's board. If a supporting organization were formed, they would have to give up control of the funds and some family members are not sure they are ready to do that. The board will debate the matter at an upcoming board meeting.

Occasionally, family foundations are unable to keep the foundation going because of lack of family participation. Sometimes family members living at a distance from one another drift farther and farther apart until not even the foundation can hold them together. Other times, family members lose interest in the foundation because they don't share the same values or because the family has exhausted its pool of family members. In those cases, the foundation may choose from a number of options, including spending out or evolving into an independent foundation run by a professional staff.

TAKING LEGAL ACTION TO CHANGE THE TRUST

On occasion, donors leave instructions in their trusts designating a specific community as the recipient of the foundation's giving. When conditions change in that community and successive generations find it difficult to identify worthy organizations to support, they may be forced to go to court to try to change the trust. While none of the foundations included in this monograph faced that predicament, the famous battle over the Buck Trust in Marin County, California has become a cautionary tale.

When Mrs. Buck, the donor, set up her trust, she stated that income be used to assist poor families in Marin County. At the time the trust was set up, Marin County was not so wealthy and the trust was not so large. Some argued that had Mrs. Buck known the true value of her estate, she would have wanted the bulk of it to be distributed in neighboring counties, which, unlike Marin, were beset by social problems. The San Francisco Foundation, where the trust had

been established, took the case to court. After a long, painful, and expensive battle, the trust was upheld and removed to a new foundation.

The publicity surrounding the Buck trial brought the issue of donor intent to the forefront of the philanthropic community. For some, the case was a warning bell to donors to state explicitly their intent to ensure that their wishes are followed. For others, it was a lesson in the dangers of writing a mission so narrow that successors would have difficulty carrying it out. Restricting giving to one community is especially problematic in the age of the geographically dispersed family; many families believe that family members should be able to give in the communities where they live. Beyond geography is the matter of control. Donors may prevent successors from subverting their wishes by legally restricting the foundation's grantmaking, but their effort to exert control after their deaths may instead lead to unanticipated problems for the foundation. Above all, the Buck case is a call to donors to use good judgment in setting their mission.

SPENDING OUT CORPUS

Most family foundations are set up in perpetuity. Because the foundation has symbolic and practical significance for the family, it is a difficult decision to close it down. Most trustees search long and hard for alternatives before taking the most drastic measure of spending out the endowment. Occasionally, however, some trustees believe that firsthand knowledge of the community is absolutely essential to their grantmaking and make it a condition of eligibility for serving on the board. That was the position taken by one foundation in the southwest.

The board was composed of the donors' daughter, then in her mid-eighties, two granddaughters, ages 64 and 59, and three community activists. The three women had lived their entire lives in the city where the donors had built their fortune, and they were deeply involved in community affairs. The sudden death of the donors' 59-year old granddaughter awakened her mother and sister to the urgency of planning for the foundation's future, something they had put off discussing. After 25 years on the board, grantmaking was second nature to them; they felt they could work more efficiently alone than with the younger genera-

tion, the donors' three great-grandchildren who knew next to nothing about the community. They had moved away after graduating from college and returned home only for the Christmas holidays. Although they claimed that they wanted to serve on the board, they took no initiative in learning about local issues.

The current trustees worried whether the great-grandchildren could maintain from afar the high standard of grantmaking that had been its trademark. After weeks of deliberation, the trustees concluded that the foundation's primary obligation was to the community and that living in the city was essential for board service. Reluctantly, they chose to shut the foundation's doors, giving their grantees two years to look for other funders and themselves time to decide how to spend out of the corpus.