ESTABLISHING GRANTMAKING INTERESTS and PRIORITIES

by Deanne Stone

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Grantmaking is the central activity of your family foundation and the purpose for its existence. It is your family's opportunity to exercise influence in areas that matter most to you. As grantmakers, you move beyond just talking about issues to looking for answers. You can think of your foundation as a mini-Congress and your board as a committee charged with developing policy. Your task is to figure out how to turn your family's concerns into a foundation vision.

Thinking like a policymaker is a serious undertaking; your decisions affect the lives of many people who count on foundation funding. To meet that responsibility requires study, contemplation, and hard work. At the same time, it can be one of the most rewarding activities of your life. Imagine the joy of knowing that your efforts have enriched the lives of others. Imagine the satisfaction of seeing situations improve through the intervention of organizations your foundation funds. As an added bonus, you will meet exceptional people through this work: colleagues, community workers, activists, researchers, and the recipients of programs you fund. Their efforts will inspire you, challenge you, and expand your thinking. And, along the way, you will likely uncover strengths, talents, and a social wisdom that you never knew you had.

As a grantmaker, you open your foundation doors to a wide field of organizations that are unfamiliar to you. What system will you use to invite grant proposals? How often will your board meet to vote on grants? How will you determine what organizations to fund, how much to give, and for how long? Will you fund local organizations, statewide, nationwide or, possibly, internationally? To make those decisions, you will have to develop specific grantmaking guidelines and procedures.

Clear, well thought out guidelines are the keys to good grantmaking. How you structure them is as much an expression of your values and beliefs as your mission statement. Some decisions will be easy; others touch on individual beliefs about the purpose of philanthropy that may stir debate in your family.

It would be misleading to suggest that the intricacies of grantmaking are easily grasped. Those of you accustomed to making decisions on the basis of profit and loss sheets may be frustrated by the ambiguities and uncertainties of grantmaking. In some cases, the impact of your grants will not be easy to measure and, in others, not evident for years to come. Expect to go through periods when you feel overwhelmed by the amount of information you have to absorb and when you doubt that you have made the right choices. Most people do. Grantmaking is not a native talent; it is learned by doing. Be assured, though, that with each grantmaking cycle you will feel a little better prepared, a little more comfortable, a little wiser.

The first year of grantmaking is a period of rapid learning and a time to avoid hard and fast rules. After you complete your first year, you may want to reassess your guidelines and grantmaking process and, perhaps, even change your mind about program interests. That is why the watchwords for this phase are: *proceed slowly.*

Translating Mission into Grantmaking

If you are like most founders, you were a donor long before you established your foundation. In charge of your personal charitable giving, you were free to respond to requests for donations from friends, from alma maters, and from direct-mail solicitations. You could write checks of whatever size you chose and, if you wanted, you could go overboard in one year and trim back on your giving in the next.

After you start your family foundation, you may still continue your other forms of giving. As you learn more about grantmaking, you may want to have more formal grantmaking guidelines, policies, and procedures. In fact, it is the discipline that grantmaking imposes on funders that attracts many wealthy individuals to foundations

Some founders come to the foundation with a clear sense of purpose. They have already decided on the mission and program areas for their foundations. Others invite family members to participate in deciding the direction of the foundation. Even after they have chosen their mission, some families still have trouble finding a focus for their grantmaking. This is especially true when family members have diverse interests or when they see so many areas of need that they can't decide what to concentrate on.

TIP ➢ If your family is having trouble identifying program interests, consider hiring a consultant to help you. An experienced consultant knows the right questions to ask, keeps the discussions on track, and leads the board to a conclusion.

Shortly after setting up a charitable remainder trust at age 96, Nathanael Berry's grandfather died without leaving instructions for how he wished the money to be used. It was left to nine family members to choose a mission and program areas for the Sandy River Charitable Foundation in Maine. Nathanael, a family member and the executive director, drew up 20 questions to survey the family's interests. "We were all over the map," says Nathanael, "but we found common interests that balanced the board members' desires to be connected to their local community with the recognition of incredible need worldwide." The foundation's international focus reflects the Berry family's composition; two siblings are Korean, Nathanael's daughter is Paraguayan, and a sister-in-law is Thai. "The key point in choosing a mission," says Nathanael, "is to understand that you can reach your objectives in myriad ways. My family has tithed 10 percent of our income for as long as I can remember, so when we were ready to start funding, we knew where to look."

TIP ➢ Circulate a survey to board members listing 15 to 20 possible program interests. Ask each person to indicate his or her top three choices. The tally from the survey will indicate the overlap or lack of overlap of interests. It will also give you a starting point for discussion.

Family interest in the program areas is critical. If family members are not engaged in the work of the foundation, they will likely perform their board responsibilities perfunctorily or decline to serve at all. Equally critical are community needs. You want to be sure that the programs you fund respond to pressing concerns of the populations you target. Before your board meets to select program interests, encourage family members to spend the next few weeks researching possible funding areas. Your discussions will be more fruitful if board members come to the meeting prepared to defend their interests with facts, and not just with feelings and opinions.

fig. 1

Ways to Educate Yourself About Community Needs

- Call your Regional Association of Grantmakers. (To find the office closest to you, go to the Website, www.cof.org. Click "Links and Networking.")
- Call your local community foundation and ask to talk with a program officer.
- Consult foundation trustees funding in your areas of interest.
- Interview staff and clients in organizations that interest you to learn what services are needed.
- Assemble a focus group of local community workers and academics who have experience in and an understanding of the topics you are exploring.
- Search the Internet or go to a public or university library.
- Attend relevant workshops and conferences.
- Research the availability of services by acting as if you were a client in need of those services.

For 25 years, Maxine and Jonathan Marshall published a daily newspaper in Scottsdale, Arizona. In the late 1980s, they began talking about selling it. Having enjoyed such a long involvement in their local community, they couldn't imagine not being a vital part of its activities. They decided to use a portion of the profits from the sale of their business to set up a family foundation.

One problem that concerned them was the growing number of homeless people in the Phoenix area. But before they could know where to direct their grants, they had to learn what kind of help was most needed: How many homeless programs existed in the area? What services did they provide? And what needs were still unmet?
With their background in the news business, the Marshalls knew how to find the right people to answer those questions. "All you need is one knowledgeable person in the field to begin networking," says Maxine. "That person will suggest others who, in turn, will suggest still others."

The Marshalls gathered together a group of experts from varied disciplines to brief them on the problem. They included the head of the largest homeless shelter in the state, a minister who had gone underground to live among the Phoenix homeless, a professor of anthropology and recognized expert on the homeless, an architect concerned with designing low-cost housing, a volunteer worker at a homeless shelter, and a formerly homeless woman who had become an advocate for the homeless. Learning about the problem from different perspectives allowed the Marshalls to identify areas where their small foundation could be most effective. They decided to direct their funding to small, grassroots projects providing services to neglected populations.

Learning about a program area takes time. For that reason, it's best to begin by focusing your grantmaking on one or two program areas. As mentioned in Facing Important Legal Issues, p. 59, new foundations have 2 years to meet their first 5 percent payout. By limiting the number of program areas in the first 2 years, you will have more time to delve into the issues, to meet with the people already working in these areas, and to ease into your grantmaking responsibilities.

Although it is important to choose program interests carefully, you are not locked into your initial choices. Circumstances change, and your original reasons for funding a particular program area may no longer apply. Social and economic conditions fluctuate, new research findings may become available, and new trustees who have different funding interests may join your board. Many grantmakers suggest staying with the same program areas for at least 3 years. That is sufficient time for the board to determine whether the program areas are a good fit for the foundation and to notify grantseekers of changes.

GOOD ADVICE➢ Serving on the foundation board may be your family's first experience in working together as a team, presumably as equals, and with the responsibility of making decisions that affect the lives of others. If so, you may discover that debating issues in the boardroom is very different from having discussions around the dinner table. Differences of opinion about policies and procedures can trigger emotions that have nothing to do with foundation business and everything to do with family history. To set a professional tone at board meetings, consider writing a statement of board etiquette that all board members agree to uphold.

Developing a Grantmaking Strategy

Your mission and program areas give purpose and focus to your grantmaking, but they do not tell you how to implement it. For that you need a grantmaking strategy, which can be succinctly expressed in your grantmaking guidelines. Guidelines are the specific policies and procedures that you develop to structure each phase of your grantmaking program: the application process, screening and evaluating proposals, and awarding grants. Whether your foundation accepts unsolicited proposals from grantseekers or whether it solicits proposals from specific organizations, your guidelines will define who you are and what you hope to accomplish.

The grantmaking strategy expressed in your guidelines could cover, in addition to your mission, foundation history, and program areas, such topics as:

- Geographic focus of your grantmaking;
- Whether you accept unsolicited or solicited proposals;
- Whether you support projects only or general operating expenses as well;
- Range of size of grants; and
- Range of length of grants.

Grant guidelines also typically describe how to apply for a grant and the dates of your funding cycle (application deadlines, allocation meetings of the board, notices to applicants, and dates of grant awards).

Mission and guidelines play crucial roles: They establish the foundation's identity in the public mind and show the community that the foundation sees itself as a public steward. Well-articulated mission and guidelines can position your foundation to be more effective in its grantmaking and to advocate more forcefully for the kind of change that you envision.

The trustees of the Lillian M. Berliawsky Charitable Trust discovered the values and mission of the trust by revisiting the life experiences of the founder. Lillian Berliawsky was the daughter of immigrants who settled in New York City around the turn of the 20th century. She and her sister set up a retail business, and they succeeded handsomely. Lillian Berliawsky left an estate in excess of a million dollars for philanthropy.

The trustees discovered grantmaking themes when they researched her life: supporting economic self-sufficiency for women and girls, bringing arts to communities that lack access to them, and creating a welcoming climate for philanthropists, no matter how modest. These themes provided the trustees with the material with which to

Guidelines are the specific policies and procedures that you develop to structure each phase of your grantmaking program: the application process, screening and evaluating proposals, and awarding grants.

fig. 2

Written Guidelines Are Valuable

Written guidelines are helpful to your foundation and grantseekers because they:

- Keep you focused on your mission;
- Make a public statement about your grantmaking interests and goals;
- Serve as a checklist for screening and evaluating proposals that are the best matches for your foundation;
- Provide objective criteria for rejecting proposals that do not meet your requirements;
- Influence the quality and quantity of proposals you receive; and
- Save grantseekers from pursuing fruitless leads.

fig. 3

Guidelines That Attract the Right Grantseekers

- Use plain, direct language and avoid jargon, trendy terms, and abbreviations known only to those inside the field.
- Underscore your grantmaking philosophy and goals with statements such as, "We give top priority to programs that …," or "We prefer to support organizations that …."
- Include list of most recent grants.
- List the types of organizations, programs, and program areas that you *will not* consider.

develop a mission for the trust, and the grant guidelines.

To some, the mission and guidelines may seem at first glance to be mere "boilerplate," says one trustee of the trust. "But they are much more. Without a well thought out and expressed set of directions, how would we know which direction we should take? Mission and guidelines are a declaration — and an affirmation — of a positive course in an imperfect world. By putting them out there, we are taking a stand on behalf of a better future." (For more information and family examples, see Virginia Peckham, *Grantmaking with a Purpose: Mission and Guidelines*, available from the National Center for Family Philanthropy.)

Having clear, specific guidelines will reduce the number of misdirected proposals you receive, but they will not entirely eliminate them. There will always be inexperienced grantseekers who, out of eagerness or desperation, fail to read guidelines carefully. And there will always be others who will read them and still try to persuade you that their proposals fit your mission when they clearly do not.

TIP ➢ Keep a running tally of the inquiries and proposals you reject and your reasons for rejecting them. Is there is a pattern to the types of misdirected proposals you receive? Is something in your guidelines misleading grantseekers about your mission? You may want to ask a colleague to review your guidelines.

You may not be ready to publicize your guidelines when you first begin making grants. Even so, it's a good exercise to jot down guidelines for your private use. After you have completed a year of grantmaking, you may want to revise your guidelines before publicizing them. In fact, it's a good idea to make a practice of reviewing guidelines periodically. As you become more experienced, your thinking about how to achieve your grantmaking goals will likely change.

Whether you are a founder writing the guidelines alone or a family hammering out the details together, it is important to be aware of your options. There are many ways to shape your grantmaking program. This section will help you make the choices that are right for your family and foundation.

Finding a Geographic Focus

Traditionally, family foundations have supported programs in communities to which family members have a connection: the founders' birthplace, the city or state where the family created their wealth, and the hometowns of current board members. As family members become more scattered geographically — living in different cities, regions and, sometimes, in different countries — foundations must decide where to draw geographical lines.

Consider these questions: Is your foundation more likely to achieve its grantmaking goals by keeping a narrow geographic focus? However, if the focus is too narrow, will family members living in different communities feel disconnected from the foundation's grantmaking? On the other hand, if the foundation funds in all the communities where family members live, will you risk diffusing the impact of your grants?

Two years ago, Leslie Dorman and her husband John founded the Sterling Foundation in Los Angeles. Leslie brought with her 16 years of experience working in nonprofit organizations as a grantseeker and, later, as an executive director of a family foundation. When she and her husband began planning their family foundation, they took to heart a lesson she had learned in her professional career: New and small foundations do best when they keep a narrow focus. They decided to fund programs for teenagers and to limit their geographical area within Los Angeles. "At first we considered funding in all of Los Angeles," says Leslie. "But it is so large and has so many problems that we decided to narrow our focus to just a few neighborhoods. That way we can get to know the people and the organizations in the area, and we can better judge what kind of support they need. Later on, we can consider whether to broaden our geographic focus to other neighborhoods in Los Angeles."

The Stocker Foundation made a different choice. When it started, all the trustees lived in Lorain, Ohio — the hometown of the founders and the place where they built their business. Then, two members of the second generation moved to another state. The board spread out farther when the third generation signed on: five live in different cities and one in a foreign country. The family feels an enduring commitment to Lorain, and it has pledged to continue to support local programs even when family members no longer live there. At the same time, the surviving donor wanted the foundation to fund programs in the towns where family members lived. By doing so, she hoped the younger generation would be more involved in their own communities and develop a stronger connection to the family foundation. (For a more comprehensive discussion of this topic, see Deanne Stone, *Grantmaking with a Compass: The Challenges of Geography*, available from the National Center for Family Philanthropy.)

Choosing Between Solicited and Unsolicited Proposals

Over the past decade, a growing number of grantmakers have chosen to solicit proposals rather than invite unsolicited proposals from grantseekers. Soliciting proposals can work in two ways: You can contact organizations whose work you admire and invite them to submit a proposal to your foundation. Or, if you have identified a particular problem that you want to address, you can put out a Request for Proposals (RFP). Soliciting proposals helps you to stay focused on your mission and avoid having to read misdirected proposals.

This approach makes sense for new foundations, especially if you do not have staff. By controlling the volume of proposals you receive, you have more time to learn about your program areas. The drawback is that you can limit your access to new ideas and risk missing out on some excellent programs. The growing trend toward soliciting proposals has had some drawback for grantseekers, too. By reducing the pool of funds for which all grantseekers can apply, it can favor organizations known to grantmakers and make it harder for small or less sophisticated groups to gain notice.

TIP➢ You can begin by soliciting proposals. Later, when you feel more comfortable with your grantmaking responsibilities and more knowledgeable about your program areas, you may want to reserve a percentage of your grants budget for unsolicited proposals.

Small vs. Large Grants: Which Is Better for You?

An ongoing debate among grantmakers is whether foundations can best accomplish their goals by making many small grants or fewer large ones. The truth is that either can be effective or ineffective. A small, carefully targeted grant can have a big impact, and a large, ill-conceived grant can make little or no difference to the community. What matters is not the size of the grant but how it is used. (To learn more about this topic, read Paul Ylvisaker's *Small Can Be Effective* in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker*, p.359.)

The approach you choose may come down to who is going to do the work. As grantmakers, you are bound to give due diligence to each proposal. Making many small grants requires considerably more time than making a few larger grants. It is important to consider how much time you have to review proposals and visit organizations. If you are committed to making small grants but lack the staff (family volunteers or paid program officers) to carry it out, check with your local community foundation. It may have already researched the organizations you are considering funding. It can advise you on their findings and save you some time.

The JoMiJo Foundation is a small foundation in Northern California founded by three brothers. (The name is an amalgam of the first syllable of each brother's first name.) The foundation is funded with income from a trust set up by their grandfather. Because the brothers do not yet have access to the principal, their grants budget is limited. Their challenge was figuring out a strategy to support a range of projects helping the destitute and disadvantaged in the three geographic regions where the brothers live. They decided to target small, grassroots organizations where their small grants would have the biggest impact. Last year, JoMiJo awarded 21 grants ranging between $3,000 and $5,000." Three thousand dollars doesn't sound like much," says Jonathan Frieman, JoMiJo's executive director, "but for some grassroots organizations that's more than 10 percent of their budget."

JoMiJo can give out so many small grants because Jonathan, the foundation's full-time director/program officer, is willing and able to handle most of the responsibilities by himself. A single man with a private income, he has chosen to make philanthropy his full-time profession. Paying expenses out of pocket, Jonathan travels among the three cities where the foundation funds to scout promising organizations. He reports back to his brothers, who have full-time careers and families, and together they decide on the grants. The brothers did not grow up in a family with a tradition of philanthropy, so they are learning together. "Working as a team," says Jonathan, "has been a kick. This is what we want to do with our money, and this is what I want to do with my life."

Like Jonathan, Sandy Buck serves as the full-time executive director and program officer for his family foundation, Horizon Foundation. The all-family board is made up of his parents, his brother and sister-in-law, and Sandy and his wife. Sandy, a former teacher and coach, had chaired the development committees at his children's school for years and was active in his community. When his parents set up the Horizon Foundation, Sandy volunteered to run it. Like Jonathan, Sandy is not paid. "I do this work for the sheer love of it," says Sandy, an upbeat, outgoing personality. "Every day that I come into the office is a new learning day. I see my job as keeping my ear to the ground, looking for good ideas, and finding the best ones to fund. Getting out in the community is my favorite part of this job."

Although the other board members do occasional site visits, the responsibility for meeting with grantseekers is primarily Sandy's. After three years of making many small grants, the board felt burdened by having to review so many proposals. "We started out by making 25 grants per cycle," says Sandy. "Last year we decided to cut in half the number of grants and increase the size of the grants. Now everyone is more relaxed, and the process is running more smoothly."

The Sandy River Charitable Foundation has an annual grants budget of $2.5 million, and its grants range in size from $20,000 to $300,000. Some family members wanted to fund small grassroots projects, too, but to do so would require hiring more staff. "We weren't ready to hire staff, but we wanted to respect those family members' wishes," says Nathanael Berry. "Our foundation is based in Maine, a state with fewer philanthropic dollars and many small efforts. We decided to give money to the Maine Community Foundation to help establish regional funds with local boards that, in turn, would give out small grants to community efforts."

When you first begin grantmaking, it is generally best to stick to the size of grants you announce in your guidelines. Occasionally, however, you may come across a project that you want to fund on a larger scale. In those instances, many family foundations prefer to bend their rules rather than miss the chance of funding a promising program that can further their mission.

Short- vs. Long-Term Grants: Which Is Appropriate?

Another ongoing debate among grantmakers is the appropriate length of a

fig. 4

Why Some Grantmakers Prefer Multiyear/Short-Term Grants

WHY SOME GRANTMAKERS PREFER MULTIYEAR GRANTS

- Gives new projects adequate time to get up and running;
- Recognizes that complicated projects need more time to develop;
- Eases grantmakers' workload by reducing the number of proposals they have to review for each cycle;
- Allows the foundation to build a portfolio of grantees aimed at fulfilling its mission;
- Gives grantseekers a break from writing yet another proposal; and
- Allows grantees to make important organizational decisions for more than a year at a time.

WHY SOME GRANTMAKERS PREFER SHORT-TERM GRANTS

- They don't want to commit money to a project before they know how it is progressing.
- If they tie up too much money in multiyear grants, they may not have money to invest in new proposals that interest them or to meet changing or emergency community needs.
- They worry that multiyear grants breed dependency.

grant. One-year grants are still the most common, but an increasing number of funders are giving out multiyear grants. Again, one is not better than the other. What matters is that the length of the grant fits the goals of the project.

All grantmakers want their grants to succeed, but oftentimes they withdraw funding before the programs have had a chance to take hold. One year is enough time to start a program but usually it is not enough time to stabilize it. Today, multiyear grants are typically given for three years, but there is nothing magical about that number. Three years may be a reasonable time for many new programs, but a very ambitious program may need more sustained support before it is stabilized.

In the early years of the Marshall Fund, Maxine and Jonathan Marshall shied away from giving multiyear grants. Over the years, however, they gained confidence in their ability to monitor multiyear grants with the same vigilance that they gave to one-year grants. "We give out the money in 6-month installments," says Maxine. "That way we can keep tabs on how the organizations are doing and whether they've run into any problems. We also require grantees to submit written progress reports every 12 months to see whether the organizations have run into any problems. Some foundations also make interim visits to the organization but our system has worked well for us."

TIP ➢ In your first year of grantmaking, it is probably best to limit your grants to 1 year. Once you have a better understanding of the field and feel more at home with the grantmaking routine, you may consider giving multiyear grants.

TIP ➢ Regional Associations of Grantmakers (RAGs) have begun to publish common grant application forms that grantmakers can use. The forms are easy for grantmakers to adapt to their uses, and make applying far easier for grantseekers. A list of RAGs can be found at www.rag.org.

fig. 5 **What Grantmakers Commonly Require Grantseekers to Include in Applications**

- One-page cover letter, including a brief description of the project, its cost, specific amount requested in the proposal, names of other foundations applied to, and name of a contact person;
- Proposal narrative with an executive summary, need statement, project description (including evaluation, project budget, fact sheet for applicant, conclusion);
- Appendix;
- Copy of most recent tax-exemption letter indicating 501(c)(3) status;
- Current list of board members and their affiliations;
- Current list of staff and their qualifications to lead and manage project; and
- Supplementary materials (annual reports, videos, brochures, or published articles). If you do not want to receive these materials, say so.

TIP ➢ Make life easier for your board members by requiring grantseekers to submit proposals in a standardized format. State your requirements regarding paper size, spacing, use of bulleted items, and placement of page numbers. In reading through proposals, trustees often want to pull out some pages for reference later. For that reason, it's better to have applicants secure proposals with elastic bands or sturdy paper clips rather than putting them in binders or folders.

fig. 6 Example of a Grant Application Form

The Marshall Fund of Arizona offers these guidelines to grant applicants:

APPLYING FOR A GRANT

Preliminary requests should be made in a one- or two-page letter. The letter should describe the mission and vision of the organization, the intended project, why it is needed and how it will be implemented. The initial request should be kept short and to the point.

In addition, a budget for the specific grant should be submitted as well as a budget for the organization, a copy of the IRS 501(c)(3) letter, a list of the board of directors, and a letter from the board chair stating board approval of the request.

If the proposed meets the Marshall Fund's guidelines and interests, the applicant will be asked to provide further detailed information for review and consideration by the board of directors. Final approval rests with the board of directors.

GUIDELINES

Grants will be made only to tax-exempt organizations that qualify under Section 501(c)(3) of the Internal Revenue Code. Grants will be made primarily to support new and innovative programs.

Grant requests must include short- and long-term goals and defined measurable outcomes. Grants that indicate collaboration and coordination with other organizations will be looked upon favorably.

fig. 7 Selecting a Proposal Application Form

You want to make the application process as smooth and simple as possible for your board and for your grantseekers. To weed out proposals that are off the mark, many family foundations request a letter of inquiry (LOI) before inviting a full proposal. An LOI is a one-to-two page summary of the grantseekers' project. While they are useful in screening proposals, they can also work against applicants who are not skillful writers by denying them the chance to fully explain their programs.

Before spending hours developing your own application form, review the many common application forms already in use. The National Network of Grantmakers in San Diego publishes one, as do many Regional Associations of Grantmakers groups. Common application forms vary from one organization to another, so you will want to look at several before selecting the one you like best. In the end, you may still prefer to develop your own, either because you have particular funding interests or because you believe you can improve on available designs.

In selecting an application form, consider these questions:

- How can we make this form simpler for us and for grantseekers?
- Will this application form bring us the best possible proposals? If not, how can we change it?
- What else can we do to make the application process easier for us and for prospective grantees?

TIP ➢ Be sure to tell grantseekers whether you prefer that they contact you by telephone or by letter. If you do not want telephone inquiries, say so.

Supporting General Operating Expenses

The trend in grantmaking over the past decade is for foundations to give grants for projects rather than for general operating expenses. Currently, fewer than 14 percent of grants are given for general expenses. The question for grantmakers is not whether to fund an organization's project or its operations. The more important questions to ask are: What do we want to achieve by funding this organization? And can we be more helpful by funding programs or by strengthening the organization?

The French American Charitable Trust in San Francisco is one of a handful of family foundations that gives grants primarily for general operating expenses. Other foundations are taking different steps to ensure that the programs they support will flourish. A new foundation in California, for example, routinely tacks on an extra percentage to program grants for operating expenses. The founder explains: "After visiting organizations last year and seeing what a hard time they were having paying their bills, I asked myself, 'How can we expect programs to succeed when the organizations running them aren't financially stable?' My husband and I decided that if we liked a program well enough to fund it, we should support the organization, too. Now we look at each program grant with the organizational infrastructure in mind, and we routinely add 10 to 25 percent for general operating expenses. We get to know the organizations before we fund them, and we trust them to be the best judges of how to spend the money."

Other foundations recognize nonprofit organizations' needs for general operating funds, but they worry that unrestricted grants will create dependency. These foundations prefer to fund line items in the organization's budget. Said one trustee, "We look for something specific we can fund that will strengthen the programs we invest in. Last year, we funded a staff position for one program and, in another case, we paid for computer training. This year, we're funding an accountant to spend 6 months helping an organization set up a more professional financial system. We want to help the organizations, but we also want to know where our money is going."

fig. 8 Why (Most) Grantmakers Favor Project/ General Support Grants

WHY (MOST) GRANTMAKERS FAVOR PROJECT GRANTS

- Projects capture their interest.
- The connection between projects and the foundation's mission is clear.
- Project grants are easier to evaluate than general support grants.
- Grantmakers can point with pride to successful projects.

WHY (SOME) GRANTMAKERS FAVOR GENERAL SUPPORT GRANTS

- Help organizations doing good work achieve financial stability.
- Ensure that the programs they fund can continue to operate.
- Allow grantseekers to be forthright in asking foundations for what they really need rather than for projects they think foundations will fund.
- Allow grantseekers to concentrate on the daily business of running their organizations instead of taking time to create new programs repeatedly in order to get funding.
- Respect grantees' judgment to use the money wisely.

Choosing the Right Grantmaking Tool

fig. 9

To help grantmakers think strategically about grantmaking, Stephanie Clohesy, a consultant in Cedar Falls, Iowa, developed a chart, A Spectrum of Philanthropic Options: A Situational Approach for Choosing the Right Grantmaking Tool for the Issue or Need. "The biggest challenge for beginners," says Clohesy, "is to get in touch with who and where they are at this moment in time. The chart helps them identify which options best suit their board as well as the needs of the community or the potential grantee." Clohesy identifies five grantmaking strategies:

1. **CHARITY:** provides immediate, altruistic assistance to someone in need
   Examples: disaster relief, soup kitchens and food banks
   Relationship: usually given to an organization serving immediate human needs
   Timeframe: usually short term

2. **SYSTEMS OF SERVICE:** develops a system or network of services that comprehensively addresses continuous or repetitive needs shared by many people
   Examples: a regional network of food banks, a health-care delivery system, a program for linking together organizations
   Relationship: grantee links individual service providers that meet targeted need
   Timeframe: usually multiple years but for a finite project

3. **EMPOWERMENT:** delivers needed services while positively changing the capacity of a person or group of people
   Examples: youth recreation services aimed at leadership, civic, or personal development; economic development programs with a leadership development component
   Relationship: grantee provides service or links multiple organizations to provide it
   Timeframe: usually multiple years

4. **ADVOCACY / SOCIAL CHANGE:** enables groups of people to work together to change systems and/or public policies (sometimes in connection with providing services, education, information, and empowerment)
   Examples: National Network of Neighborhood Associations, National Council of La Raza, Environmental Defense Fund
   Relationship: usually the funder or group of funders and coalitions or associations of organizations or some other form of constituent affiliates
   Timeframe: usually 3 to 5 years for a finite project model

5. **MARKET MODELS:** (Venture Philanthropy and Social Entrepreneur-ship); strategic assistance comprised of grants and/or investments for entrepreneurial endeavors that often bridge non-profit and for-profit structures. This approach combines innovative solutions with sustainability plans that go beyond a traditional charitable/philanthropic base of support (earned or enterprise income)
   Examples: www.ShopforChange.com, Entrepreneurs Foundation, Women's Technology Center
   Relationship: usually an intensive, hands-on relationship in which funders and social entrepreneurs function as partners. Funders provide other support beyond financial capital
   Timeframe: usually multiple years and through multiple stages: seed support, startup, operationalizing, mezzanine-level (second stage of development to stabilization), and long-term sustainability

Clohesy encourages new grantmakers to ask themselves: Which of these options reflect your beliefs and values? What is realistic given your personalities, backgrounds, and time schedules? How much time are you willing to invest in learning about the issues and working with the organizations? Is your preference to address immediate needs or to foster social change?

Because of the extensive media coverage of high-tech entrepreneurs, many new grantmakers are attracted to the venture philanthropy model. Clohesy cautions them to think carefully before jumping into it. "Venture philanthropy may be the right choice for a foundation that has a staff or volunteer services to form a partnership with grantees," says Clohesy, "but it is too intensive a starting place for most beginners."

The Spectrum of Options can also be used as an assessment tool at the end of your first year of grantmaking. "This is the time to step back and look at what you've done," says Clohesy. "Given what you've learned, where do you want to go next?" The most effective grantmakers employ a variety of grantmaking options. In any one funding cycle, they may make some grants to meet immediate needs, others to foster empowerment, and still others to promote social change. You will probably start off favoring one or two strategies, but your emphasis is likely to shift over time as new trustees join the board bringing new knowledge and know-how, and in response to changing social and economic conditions.

Publicizing Your Guidelines

In the interest of promoting accessibility and accountability to the public, foundations are encouraged to publicize their guidelines. Printed guidelines do not have to be fancy or cost much money. You can type them on a single sheet of paper or print a simple brochure on your computer.

More and more family foundations prefer to post their guidelines on their websites. That way they can easily update the information without having to spend time and money reprinting and mailing guidelines. The websites of The Foundation Center (www.fdncenter.org) and the Association of Small Foundations(www.smallfoundations.org) provide links to the websites of private foundations. If you do not want to have your own website or if you want to wait awhile before creating one, contact The Foundation Center or the Association of Small Foundations to find out how you can post your guidelines on their websites.

Not all family foundations choose to publicize their guidelines. For personal reasons, some prefer to do their grantmaking quietly. They may live in small towns and want to avoid calling attention to themselves. Or they may keep a low profile to prevent their grantmaking activities from affecting relationships with friends and neighbors. Others worry that publicizing guidelines will invite more applicants than they can respond to or ever hope to fund.

In the past, choosing not to publicize guidelines may have afforded foundations privacy. Today, trustees no longer have that luxury; grantseekers can easily obtain information about foundations on the Internet. Given that reality, foundations have even more incentive to publicize their guidelines. By defining who you fund, you actually have more control over who contacts you than foundations that don't. Grantmakers who develop clear and specific guidelines report an increase in high-quality proposals within their funding interests and a decrease of inquiries outside their funding interests.

GOOD ADVICE ➢ Understand the legal limits of what you can do. Let your imagination fly. Put yourself in the other person's shoes.

NATHANAEL BERRY OF THE SANDY RIVER CHARITABLE FOUNDATION

fig. 10 Sources of Information on Setting Up Websites

www.techsoup.org (See Web Building)
www.charityvillage.com/charityvillage/research/rtech2.html
www.coyotecom.com/webdevo/index.html
www.tagtech.org/topics1956/topics_show.htm?doc_id=29287
www.tagtech.org/topics1956/topics_show.htm?doc_id=26230
www.techsoup.org/resourcelist.cfm?resourcelistid=7&showall=1

SOURCE: Martin B. Schneiderman, Information Age Associates, Inc.mbs@iaa.com

Getting Ready for Grantmaking

In addition to tasks related to your grant guidelines, a second set of tasks relates to the mechanism of processing grant applications, namely:

- Setting funding cycles;
- Screening proposals;
- Arranging site visits; and
- Preparing the board docket.

Determining the Grants Formula

The formula you devise to divide your grantmaking budget depends on family interests and relationships as much as on your grantmaking strategies. Typically, foundations divide the budget by program areas, by communities where board members live, or by geographic regions.

fig. 11

Grantmakers Have Many Methods of Support

Grantmaking commonly — but not always — supports a specific project. A grantseeker submits a proposal to the foundation to fund a specific project and, if approved by the board, the foundation writes a check to the organization. While this is the most common kind of grant, it is only one of many types of support foundations can offer to grantees.

You may discover that circumstances and conditions dictate different responses. A standard project grant may be the best way to fund an innovative or proven program, but not the best way to help a fledgling organization or one under pressure to raise money quickly. The following types of support can be used effectively by family foundations of all sizes:

- **Project support:** to fund the specific project and outcome outlined in the applicant's proposal and approved by your board.
- **Seed money:** to launch a new organization or new program. The money can be used for planning or for staffing and operations.
- **Emergency fund:** to allow an organization to respond to immediate community needs or to see an organization through a crisis.
- **Restricted funds:** to limit use to purposes specified by grantor, such as a particular population or region.
- **General operating support:** to allow grantees to use grants according to their discretion, whether for administration, fundraising, overhead, or stabilizing the organization. (See sidebar)
- **Capital grants:** to help grantees finance the construction or renovation of a building and to purchase land, equipment, or a facility.
- **Endowments:** to help grantees gain financial stability by establishing or increasing the organization's endowment. Grantees cannot touch the principal but can use the income generated by the endowment for general operating expenses.
- **Research:** to further research projects conducted by universities, medical institutions, and think tanks.
- **Matching/challenge grants:** to help or encourage an organization to raise money by pledging to match a fixed amount raised from other sources. Grantors may match the money raised dollar for dollar or by a specified ratio
- **Collaborative grants:** to join with like-minded funders to support large or complex projects that no one funder can undertake single-handedly.
- **Impact grants:** a large, one-time gift, typically to launch a fundraising or endowment campaign.
- **Scholarships/awards:** to support or honor outstanding individuals who excel in areas supported by the foundation. (The IRS imposes strict regulations on grants given to individuals, including obtaining approval for the grants before they are distributed. Many foundations prefer to give the grants to the institutions or nonprofit organizations for the benefit of particular individuals.)
- **Program related investments (PRIs):** to give nonprofit organizations access to capital by providing low-interest loans, loan guarantees, or equity investments for projects such as community revitalization, low-income housing, and micro enterprise development. PRIs are not outright grants but loans the organizations are expected to repay by a specified period.
- **Technical assistance:** to allow grantees to hire consultants/trainers to strengthen the organization's management, fundraising, board development, or leadership. Grantors may also give grants directly to nonprofit management organizations to provide free trainings to current or past grantees.

fig. 12 Devising a Grants Formula

You enjoy the widest latitude in deciding how to allocate your grant funds. You need only ensure that the grants conform to legal requirements.

You can direct your entire grant fund to one nonprofit organization, to several nonprofit organizations within the same field of interest (such as education or the environment), or you can aim at targets of opportunity as they arise. You're the boss when it comes to deciding on a grants formula. This characteristic is one of the great strengths of the private (family) foundation, and one of the central appeals that the private foundation holds for founders.

Consider these two approaches. On founder is determined that grants will support education of youngsters from low-income backgrounds what are interested in science. This founder might adopt at the outset a formula that allocates grants as follows:

- **10 percent** to a public education campaign about opportunities in science;
- **60 percent** to build a scholarship endowment in a local public high school; and
- **30 percent** to build a scholarship endowment at the founder's alma mater.

Another founder also has strong ideas about the grantmaking strategy (to support new American music composition), but as startup day approaches, other members of the family begin to speak up. A couple of the founder's siblings and children advocate for environmental grants and the grandchildren want money to support Native American causes. Then, after much reflection, the founder's spouse weighs in with a proposal to support a local arts program.

This founder's problem is that family pressure is accompanied by very strong and well-presented reasoning. The family debates the familiar trade-off: a few large, focused grants accomplish more (it is argued) than do several smaller, more scattered grants. But, the point is made that foundations can trigger more support, generate activity, and effect change with small grants as well as large one. The founder finally settles on this formula:

- **50 percent** to support new American music composition, with grantees largely selected by the founder;
- **20 percent** to support environmental activities, with recommendations for grantees made by family members interested in that field;
- **20 percent** to support Native American causes, with recommendations for grantees made by family members interested in those causes; and
- **10 percent** for discretionary grants to be made by the founder with suggestions from family members.

GOOD ADVICE ➢ **No one formula for dividing the grants budget is better than another. What's important is that the one you choose suits your family. Some families function best with strict rules for dividing the grants budget; others prefer a more flexible policy. You know your family best — and you will get to know them even better by working together. If you generally get along well and know how to negotiate compromises, you may do well with a looser approach to dividing the budget. If, however, your family members tend to be competitive or concerned that one person or branch is getting more than the other, you will have to take extra care to devise a formula that is acceptable to everyone. Often arguments over how to divide the budget are not so much disagreements over proposals as symptoms of spoken and unspoken rivalries between individual board members, generations, or family branches.**

Spending Policies and Payout

fig. 13

GOALS OF THE FOUNDERS

Sam and Celia Sanders established the Sanders Family Foundation to share and continue a philanthropic legacy with their children and future generations. Sam and Celia did not intend to spend out the foundation, and indeed had named the foundation as a primary beneficiary of their estate. They did want, however, to see the results of the foundation's grantmaking in their lifetimes, and to realize the joy that came through giving with other family members.

DECIDING ON A SPENDING POLICY

The first step for determining payout was to decide on a spending policy. Sam, Celia, and the rest of the Board decided on a spending policy with an annual payout objective of 8.5 percent — significantly above the required 5 percent minimum payout rate. The foundation's investment advisors explained to the Sanders that this payout rate, combined with the costs of inflation and the administrative costs required to run the foundation, would almost certainly erode the real value of the foundation's initial endowment over time. The Sanders, however, were eager to accomplish as much as possible with the funds they had allocated, and wanted to see the results of their philanthropy in their lifetimes. They also realized that the long-term value of the endowment would be significantly increased by the testamentary gifts they had planned.

DETERMINING PAYOUT

The Sanders Foundation's investment assets at the start of the most recent year were valued at $19.5 million. At the beginning of the year, the board estimated an average value for the foundation of $20 million throughout the year, factoring in their expectations of a gradual appreciation of the assets.* Thus, with an annual spending policy of 8.5 percent, they projected a total payout for the year of $1.7 million ($20 million x 8.5 percent).

The foundation board meets quarterly to decide on grants, and awards approximately one-fourth of the annual grant payout at each meeting. During each of the first three quarters of the year they awarded grants totaling $1.275 million ($425,000 per quarter for three quarters). This left them with approximately $425,000 to distribute at the final meeting of the year, give or take any unexpected gains or losses in the average value of the endowment throughout the year.

CARRYOVER CREATES FLEXIBILITY FOR FUTURE YEARS

Because their spending policy was well above the 5 percent minimum requirement, the Sanders did not have to be concerned with the exact amount of the fourth quarter payment. Indeed, because they were well over the required payment (see box), the Foundation was able to "carry over" approximately $735,000 (the amount that their payout exceeded the required amount) toward payout over any or all of the next five years. Although they did not intend for their spending policy to change in the coming years, Sam and Celia were happy to know that due to the fact that they had exceeded the required payout for several years running, they could easily afford to scale back grantmaking for a year or two if they decided they needed to review the direction or some other aspect of the foundation's future.

DETERMINING THE MINIMUM REQUIRED PAYOUT
for the Sanders Foundation

ITEM	AMOUNT	EXPLANATION
Foundation Assets	$20,000,000	12-month average fair market value of foundation's assets*
Cash Reserve	– $ 300,000	Law allows up to 1.5 percent of endowment value to be "held for charitable purposes"
	$19,700,000	
		Law requires a minimum 5 percent payout
Payout rate	X .05	
	$ 985,000	This indicates that the foundation has qualified to reduce its tax on investment income from 2% to 1% for year (see Additional Resources)
Excise Tax Credit	– $ 20,000	
		Payout may be met through grants, administrativeexpenses, and other qualified distributions
Minimum Payout Requirement	$965,000	

*While there is no specified formula for how to calculate required payout, a monthly average is generally accepted as one of the most straightforward and reasonable approaches. To get the average fair market value, add up the value of the endowment on the last day of each month, and divide by 12.

ADDITIONAL RESOURCES

For technical issues related to payout, please consult your advisor or accountant. For additional resources on calculating payout, please see:

- "How to Calculate Your Payout," National Network of Grantmakers http://www.nng.org/html/ourprograms/campaign/calculate_table.htm
- "Calculating the Required Distribution," from *Family Foundation Handbook*, Aspen Publishers, Inc., Washington, DC: 2001, Section 7.04, pages 7-30 to 7-39.
- *Family Foundations and the Law*, Council on Foundations, Washington, DC: 2002, pages 25 - 26 and 40 - 41.

Jason Born

You may divide the funds equally among all areas, designate a larger share for an area that has special interest to the family, or let the quality of the proposals dictate the size of the grants.

Setting Funding Cycles

Funding cycles vary widely among family foundations. They may give out grants annually, biannually, quarterly, or all year round. The cycle you choose will depend on board members' schedules and how much effort is required to bring them together. If, for example, your family is spread across the country or if the younger generation has full-time careers and young children, you may arrange to meet only once a year and hold conference calls in between. Whatever funding schedule you choose, you will want to map out a timetable for the entire grantmaking process far in advance to alert board members to important dates. And to be on the safe side, assume that preparing for your first funding cycle will take longer than expected.

fig. 14 Timetable for Grant Cycle

DATE	TASK
________	Letter of inquiry deadline (optional)
________	Application deadline
________	Acknowledge receipt of proposal with card or form letter
________	Initial screening meeting
________	Notify applicants of status of proposal
________	Complete site visits
________	Complete all other fact-finding
________	Prepare docket
________	Mail packets to board members
________	Allocations meeting
________	Notify applicants of final decisions
________	Mail checks to grantees
________	Receive reports from grantees (6 months or 12 months)

Ferdinand and Susanna Colloredo-Mansfield set up The Alces Foundation in Massachusetts in 1999. (Alces is Latin for "Moose," Ferdinand's nickname.) The foundation is small, and Moose and Susanna could have just as easily turned the money over to a community foundation. But they wanted their three adult children living in different states to learn about philanthropy. They also wanted the family to have more contact and to learn about and respect each other's interests and concerns.

Because of its small size, The Alces Foundation gives grants only to nonprofit organizations it invites to submit proposals. In the first year, the family agreed that each trustee would bring in proposals from grassroots organizations doing exciting work in their communities. When it came time to deliver the proposals, the three younger trustees had none, Moose brought in two, and Susanna had found 12 projects she wanted to fund. The board realized that they would have to be more specific in their instructions and to design a funding schedule that fit the trustees' busy lives.

Now the board talks by phone in January and as needed until grants are awarded in May. The trustees start their research early so that they will have plenty of time to visit organizations and to determine their needs before the spring board meeting. Susanna has been a volunteer with nonprofit groups for 30 years and an advisor to foundations. She is the one who provides technical assistance to organizations from which they solicit proposals. "We seek out cutting-edge groups that are underfunded," says Susanna. "Some of them have never written a proposal before wecontacted them. We give them as much help as they need to produce a good proposal, and they can always call us if they have questions. We want them to succeed, and to do so they have to know how to write proposals."

Most foundations still require grantseekers to deliver their proposals by mail. With the widespread use of the Internet, today some foundations accept application forms via e-mail. In fact, The Sandy River Charitable Foundation encourages it. "We try to be flexible," says Nathanael Berry. "We also accept information about an organization's financials that they've posted on public websites — either on their own or on sites such as www.guidestar.org." The Sandy River Charitable Foundation is willing to go a step further to accommodate grantseekers. It accepts proposals applicants have written to other foundations as long as grantseekers rewrite sections to address Sandy River's interests.

Screening Proposals

However you initiate the grantmaking process — with a letter of inquiry, solicited proposals, or unsolicited proposals — you will receive more requests than you can fund. To ensure that proposals get a fair hearing, it is recommended that at least two people — trustees or staff — read and discuss the proposals. Different perspectives on a project or issue can mean the difference between a proposal being rejected or accepted for further consideration.

Your initial screening procedure might involve these elements:

- Develop a checklist of criteria for screening proposals. The checklist can be used in the initial screening process and again in the formal review process to help board members focus their thoughts.
- After reading each proposal, put it in one of three stacks: interesting, questionable, outside guidelines.
- To learn more about the "questionable" proposals, consider calling colleagues or your local community foundation. They may have information about the organizations and programs that would help you decide whether to consider or reject the proposals.
- Decide how many proposals your board can reasonably manage in your first funding cycle. Let's say that you can fund 10 proposals. Go through stack #1 again and select the 15 strongest candidates, anticipating that at least five will not make the final cut.
- Notify applicants of the status of their proposals promptly. Nonprofit organizations put their hard work and hopes into each proposal. The sooner they hear from you, the better they can plan their fundraising efforts.

More and more family trustees are recognizing the advantages of having a mentor to guide them through their first year of grantmaking. Some are most comfortable with an informal mentor relationship: meeting or talking periodically with someone whose ideas, values, and achievements they admire. Others prefer a formal relationship, such as hiring a consultant to act as an advisor or coach. And, then there are those like Maxine and Jonathan

fig. 15 **Sample Postcard or Form Letter**

To those organizations whose proposals you will consider: "Thank you for sending us your proposal for _____. We are interested in it and have placed it on our docket for review by the board on ____. We will contact you if we need additional information ____ or to arrange a site visit."

To organizations you have screened out: "Thank you for sending your proposal. Because it does not fall within our guidelines or current funding priorities, we regret that we cannot consider your proposal. We wish you luck in finding other funding."

fig. 16

Becoming a Knowledgeable Grantmaker

As a grantmaker, you want your grants to have the maximum impact on the communities you target. One way to make that happen is to become an expert on your program areas and the organizations that share your goals. A list of resources for doing research on program areas was presented at the beginning of this chapter. Here are additional suggestions:

1. Attend professional workshops and conferences.
2. Join your local Regional Association of Grantmakers. (For a listing of regional associations, go to www.rag.org.)
3. Join an affinity group of colleagues working in the same program area. (For a listing of affinity groups, go to *www.cof.org*. Click "Links and Networking.")
4. Volunteer to serve on professional committees and panels.
5. Start a library of professional books and publications in your foundation office. Request The National Center for Family Philanthropy's catalog of publications prepared for family foundations. Subscribe to professional journals such as *Foundation News & Commentary* (a publication of the Council on Foundations) and *The Chronicle of Philanthropy.*
6. Make use of the Internet. Subscribe to The Foundation Center's free *Philanthropy News Digest*, a weekly update of news about philanthropy, www.fdncenter.org. (The Foundation Center, 79 Fifth Avenue, New York, NY 10003 Tel: (212) 620-4230 Fax: (212) 691-1828.)
7. Invite academics, city leaders, and community activists to brief your board on topics bearing on your mission.
8. Arrange bus tours for your whole board to visit neighborhoods where you fund or consider funding organizations.
9. Talk with staff and clients of nonprofit organizations. They are among the best sources of information about what the community needs.

Jonathan Frieman had 17 years of volunteer experience behind him when he and his brothers started their foundation, JoMiJo. He had done legal work for homeless advocacy groups and sat on boards of nonprofit organizations. What he lacked was hands-on grantmaking experience. Jonathan set out to educate himself. He turned to local family foundations for guidance on the nuts and bolts of grantmaking. Then, for help in thinking about program areas, he consulted with More than Money, an organization located in Massachusetts that promotes philanthropy and shares his views on working for social change.

To broaden his grantmaking experience, Jonathan joined Threshold, a project of the Tides Foundation in San Francisco. An invitation-only group, Threshold brings together wealthy individuals to fund projects and sharpen their grantmaking skills. Jonathan also volunteered with Catalog for Giving, a group that published an annual guide to charitable giving. Serving on the committee researching organizations for teens — one of JoMiJo's funding areas — Jonathan learned about exciting projects around the country. Of his efforts to educate himself, Jonathan says, "I have three professional degrees. Now philanthropy is my fourth."

fig. 17 Possible Criteria for Judging Applicants

- The purpose of the proposal and its compatibility with the foundation's mission;
- The mission and history of the applicant;
- The community needs served;
- The amount of the grant request and what share other grantmakers are funding;
- Plans to sustain the effort in the future; and
- Desired outcomes and how they will be measured.

fig. 18 Why Grantmakers Make Site Visits

GRANTMAKERS MAKE SITE VISITS TO:

- Get to know the staff and the work of the organization firsthand;
- See the neighborhood in which the organization is located;
- Observe programs in action;
- Speak with clients served by the organization;
- Develop a better understanding of how they can help the organization;
- Broaden their understanding of issues in their program areas;
- Shape their thinking about future grants;
- Judge whether the proposal accurately represents the organization; (Proposals can be deceiving. Those written by professional grantwriters can make a so-so organization shine. Conversely, a less artfully written proposal can disguise the merits of an excellent program.)
- Build relationships with grantseekers; and
- Be reminded of the importance of the work they do.

Marshall who organized a group of their peers. "When we started out," says Maxine, "we rounded up a group of small funders in our area. For the next two years, we met informally every two months to talk over issues and share ideas. It was an invaluable experience for all of us."

TIP ➢ If your foundation prefers not to hire paid staff, consider bringing in interns to help you manage the grant process. Graduate students working toward degrees in your program areas may welcome the opportunity to work for a foundation. They can be excellent resources, alerting you to new research findings and to academics doing important work. You may also want to develop relationships with knowledgeable people in your area who can advise you on proposals and developments in the field.

Arranging Site Visits

Once you have completed the screening process, you may want to make appointments to visit as many applicants as you can. Although you can learn a lot about an organization from reading the proposal, having phone conversations with staff, and doing background research, most grantmakers agree that there is no substitute for a site visit. (See Sample Policies and Forms, p. 239, for a site visit report.)

As fact-finding missions, however, site visits have limitations. Grantseekers regard site visits as they do written proposals: opportunities to sell their program. Their job is to present their organization in the best light and to withhold information that would damage their prospects of getting the grant. That approach, says Jonathan Frieman, can be self-defeating. He encourages applicants to be honest with him. He tries to win the trust of grantseekers with his directness. "I tell them not to tell me what they think I want to hear. I can't help them unless I know what their situation really is and what they really need."

GOOD ADVICE ➢ "Nonprofits may be intimidated by having a foundation trustee visit, so work hard to establish a rapport and listen a lot."

SHIRLEY FREDRICKS,
TRUSTEE AND FORMER PRESIDENT OF
THE LAWRENCE WELK FOUNDATION

The eagerness of grantseekers to make a good impression may tempt you to make encouraging comments about their prospects. Please restrain those impulses. Few things are worse than raising grantseekers' hopes and then disappointing them. To avoid any confusion about the purpose of your visit, remind grantseekers that you represent your board and that you are there to learn more about their organization.

It is usually best for two board members to do the site visit together. That way you can compare impressions of the organization. You may also want to invite your mentor or a consultant to go along with you on your first few visits. There is nothing wrong with admitting to the applicant that you are new at grantmaking and just learning to ask the right questions. If anything, grantseekers will probably be more forthcoming with you.

TIP ➢ If you are unaccustomed to conducting interviews or you are new to the program areas you are funding, you may feel uneasy at the prospect of interviewing people better versed in the issues than you are. Before going on the site visit, prepare a list of questions you want to ask. What do you have to know about this organization to decide whether to fund it? What points in the proposal need amplification? You may want to submit your questions in advance so that staff will not have to search for information during the interview. Or, you may prefer to jot down a few notes about the organization's history to keep them fresh in your mind and to take a checklist of points you want to cover in the meeting.

Because family members today live in different parts of the country, most foundations ask family members to conduct site visits in their home communities. Some, however, set aside a small percentage of their grant budget for travel expenses so that a few family members can visit organizations together. These foundations regard expenses associated with site visits as the cost of doing business and as part of their board's education.

GOOD ADVICE ➢ "The most important thing a grantmaker needs is a pair of sturdy shoes, because the key to successful grantmaking is to pound the pavement by visiting grantees and potential grantees."

SHIRLEY FREDRICKS,
TRUSTEE AND FORMER PRESIDENT OF
THE LAWRENCE WELK FOUNDATION

After more than a decade of doing site visits, Leslie Dorman is more convinced than ever that they are indispensable to good grantmaking. "You can't make grants from your desk," she says. "Grantmaking becomes an art when you get the feeling for the people running the organizations and receiving the services." To relax the staff and to learn more about them, she starts the interview by getting them to talk about themselves. "I ask them how long they've been with the organization and what they enjoy about their work. I want them to know that I'm interested in them, too, not just in the organization. If the staff feel comfortable with you, they will talk more openly." For Leslie, site visits are a reminder of why she has worked in this field for more than 25 years. "Problems today are so huge that I sometimes feel as if nothing can change. Then I go on a site visit and meet wonderful people doing important work, and I leave feeling hopeful again."

GOOD ADVICE ➢ **Just because you have the money doesn't mean you know the best way to spend it: learn, learn, learn.**
Keep looking at the big picture.
Be humble and kind.

JONATHAN FRIEMAN, JOMIJO FOUNDATION

Ensuring a Fair Hearing

There are likely to be times when the interests of individual family members fall outside the stated guidelines of the foundation. While your foundation may make some accommodation for that (see Discretionary Grants Programs, p. 185), other families find that focusing on their shared mission is the best way to accomplish that mission and fulfill their public trust.

TIP ➢

- **Establish strict criteria for evaluating proposals so that all proposals are judged on their merits.**
- **Talk candidly about family influence and safeguards you can put in place to ensure that proposals are reviewed fairly.**
- **Establish a conflict-of-interest policy and a process for reviewing proposals from organizations with which trustees are affiliated (serve as board member, are alumni of, etc.).**

Preparing the Board Docket

If your foundation does not have a designated staff person — program officer or grants administrator — consider appointing a committee of board members to share the work of preparing the docket. If board members are geographically dispersed, it may be best for one person to assume responsibility for the docket.

To give members sufficient time to study the proposals, packets should be mailed 2 to 4 weeks before the board meeting. The packet includes the full proposal, requested supplementary materials, and a report to the board. The report is a summary of the proposals' strengths and weaknesses plus any additional relevant information board members have gathered from visiting grantees and conferring with other knowledgeable sources.

Sandy Buck recalled the first time he prepared the docket for the Horizon Foundation. "It was so thick that board members were practically crying about the amount of reading required. We looked around for short cuts." Because Sandy makes most of the site visits for the foundation, a colleague suggested that he write a two- or three-paragraph summary of each proposal for the board, including recommendations for the size of grants. "The summaries represent my best judgments," says Sandy, "but that doesn't mean that everyone accepts them. Rather, they give the others something to bounce off of and keep the discussion moving. This approach works well for us, and my family appreciates that it requires less of their time and focuses their attention on the most pertinent information."

Your board must decide whether to award grants on the basis of majority vote or consensus. A common misconception is that consensus requires 100 percent agreement. If that were the case, boards would rarely, if ever, reach consensus. Consensus is reached when all the board members can accept the decision, even if it isn't perfect. Another misconception is that voting by consensus works only when board members are like-minded. In fact, many boards that have diverse political and religious views use it successfully. What is required is a reasonable degree of flexibility: board members who judge proposals on their merit and who have the willingness to let go of an established position when it is out of step with the others.

Working together as grantmakers allows family members to get to know one another in a different realm. You may discover new sides to family members' personalities and a depth of feeling about issues or particular proposals that you never imagined. Sometimes, you may also be surprised by the vehemence with which a family member can fight for a proposal about which others feel lukewarm. When these situations arise, you will be relieved to have clear grantmaking guidelines to fall back on. Sometimes, in these instances, discretionary funds can defuse disagreements by allowing family members to use their funds to support organizations they like but which haven't won over the whole board.

Saying “Yes” and Saying “No”

Foundations can reduce the gamble of investing in riskier organizations by developing grant agreements with grantees. In the agreement, you spell out the expectations for both the grantor and the grantee. You also include a schedule of payments that you may or may not wish to link to evaluations of the grantee’s progress. Then, if at any time the grantee is not living up to the agreement, you can discontinue payments.

One of the more difficult tasks for the grantmaker is having to say “no” to hopeful grantseekers. In fact, some new grantmakers find it so hard to say no that they procrastinate in notifying applicants. And, when they finally do contact them, they try to soften the blow with ambiguous language. More often than not, attempts to be kind will only mislead and frustrate the people you tried to protect.

The way to be most helpful to grantseekers is to talk straight to them. Grantseekers want answers to three questions: Do they still have a chance to get funding? Should they resubmit their proposal for the next funding cycle? How can they improve their proposal?

If grantseekers have no chance of getting a grant from your foundation, give them a clear “no.” With volunteer management, it can be difficult to get back to everyone in detail. For those who can, the effort can be educational and satisfying for both funder and grantseeker.

“I worked as a fundraiser,” says Sandy Buck of the Horizon Foundation, “and I remember how angry I felt when foundations sent me a two-line boilerplate rejection letter. That’s why I make a point of giving applicants an explanation of why we rejected them and tying it to something specific in their proposal.” Jonathan Frieman of the JoMiJo Foundation prefers to contact applicants by phone to explain why the foundation did not fund their proposals. If the proposal shows promise, he will work with the applicants to strengthen their request.

The Sandy River Charitable Foundation considers each grantee on a case-by-case basis. “Our board has spent a lot of time discussing exit strategies,” says Nathanael Berry. “We want to fund organizations long enough to get them on their feet, but we don’t want the grants to turn into subsistence grants.” In one case, the foundation funded a full-time position for a development director for 1 year and provided an additional challenge grant amounting to half again the funded salary. In the second year, it made a smaller grant to pay half of the development director’s salary. And, in the third year, it renewed the challenge grant only.

Evaluating Outcomes

After all the hard work that you have put into the funding process, you want to know what the organizations you funded accomplished. Evaluations do not have to be costly or time consuming. What you want to know is how the programs fared and whether your grantmaking process contributed to their success or failure.

Typically, grantmakers evaluate grantees after one year. Oftentimes, however, that is not sufficient time to judge a program’s performance. Programs that collapse and close their doors are obvious failures. Others fall prey to the usual organizational demons: poor leadership or management, undercapitalization, and the unexpected — illnesses, natural disasters, and changing economic and political conditions. But, in many other cases, it simply isn’t possible to assess accurately after one year whether a program succeeded or failed. This is especially true of programs designed to affect behavioral changes. Occasionally, participants may show dramatic changes after one year, but more often the changes are subtle or don’t show up for years.

This does not mean that you should stop requesting 1-year reports. Organizations can always benefit from periodically assessing their policies and goals. But foundations have to have reasonable expectations for programs that address difficult problems and what they can *fig.* 19

Grants Agreements

Typically, grantmakers think of evaluation as something done after the grant has been made. In fact, it is more useful to ask yourself questions before you award the grant. What do we hope to achieve with this grant? How will we recognize the organization's progress? What will success look like? Clarifying expectations allows you and your grantees to stay focused on the goals. It also can avoid misunderstandings and disappointments down the road.

Large foundations have routinely used grants agreements to spell out their expectations of grantees. Now, more and more small and mid-size foundations are also discovering their value. In addition to outlining the program expectations, grants agreements can spell out legal requirements, preferences regarding publicity, and other issues that protect the foundation and ensure common understanding. They take time to write, but the time is well spent.

Write a letter to each grantee outlining the requirements of the grant. The requirements repeat the objectives the grantee enumerated in the proposal. Tell grantees that you would like them to address each of the objectives in their final report to you. (If the grant is large, you may request a brief interim report.) Encourage the grantees to contact you quickly if they have questions or want to clarify the objectives you have listed.

The original objectives often have to be modified once a project gets underway. However, if grantees make any significant changes, tell them that you expect them to notify you. Finally, remind grantees that the purpose of the report is to allow you to learn from them. The insights they share help you to sharpen your thinking about grantmaking. (See Sample Policies and Forms, p.235, for an example of a grants agreement forms.)

achieve. Grantmaking is rife with uncertainties and ambiguities, and often the best that you can expect after one year is that the programs are moving in the right direction.

Some foundations hire professional evaluators to assess their grants but most foundations, especially smaller ones, don't have the money or the need to make such formal or elaborate assessments. Mainly, you want to know whether the grantees did what they said they would do and what effect the program had on the population served.

Ways to evaluate grantees' performance:

- Send questionnaire to grantees at the end of six months and/or one year;
- Ask the grantees to provide written self-evaluations;
- Have staff or trustees check in with grantees periodically by phone or in person;
- Hire a consultant to talk with grantees;
- Meet with other funders in your area who have funded the same groups; and
- Host a meeting with grantees to evaluate the application process.

TIP➢ Be sure that your reporting requirements are commensurate with the size of your grants. Do you have the same reporting requirements for all grantees, regardless of how much money they received? Are you asking grantees who receive small grants to spend more time writing reports than the value of the grant they received?

Some people question the value of asking grantees to evaluate their performance. They argue that grantees tell grantors only what they want to hear. It is true that grantees tend to be self-protective. After all, why should they be expected to say anything that would jeopardize their chances of getting future funding? Yet the experience of the Marshall Fund demonstrates that grantees can be disarmingly honest when they believe that the grantors are after helpful information and not looking for reasons to discontinue funding the grantees. "We send questionnaires for the 6-month and 12-month grant reports to our grantees," says Maxine Marshall, "and ask them to report the mistakes they made and what they would do differently. We've been amazed at how truthfully grantees respond to those questions. We appreciate their honesty because it helps us to rethink how we do things, too."

TIP ➢ The purpose of conducting evaluations is to make use of what you learn. Be sure to set aside time to discuss your findings at a board meeting or retreat. Consider, too, convening a meeting with grantees to talk about what they learned from the experience and how they think the process could be improved. And you may want to call your local RAG to check on upcoming workshops on evaluation where you can exchange ideas with colleagues.

fig. 20

Breaking Down Barriers Between Grantmakers and Grantseekers

More family foundations are reaching out to nonprofit organizations than in the past, but grantseekers and grantmakers are still often isolated from one another. Neither knows enough about the other and when they do talk, they tend to talk only about matters related to proposals. In doing so, they miss the opportunity to exchange information about their larger body of work and experience. As a grantmaker, you can learn about the bigger issues by:

- Visiting grantees midway through the grant. On the second visit, grant proposals are not on the line and grantees can be more relaxed and more forthcoming about their work and the challenges they face.
- Hosting meetings or going to meetings sponsored by community groups or state associations of nonprofits where you can meet grantseekers.
- Serving on panels on which trustees and grantseekers are seen as equals.
- Hosting meetings with grantees to talk about program areas and to hear their ideas of how to address community needs.

Special Grantmaking Opportunities

Using Discretionary Funds

Discretionary grants are grants made at the discretion of individual trustees or other authorized individuals, without the standard review process by the whole board.

Over the past decade, a growing number of family foundations have designated a portion of their grantmaking budget for discretionary funds.

The popularity of discretionary funds stems from their versatility. They can be used to:

- Reward family and non-family trustees for their hard work;
- Reward staff (usually executive directors) for outstanding service, or allow them to respond to immediate needs within the foundation grant guidelines;

GOOD ADVICE ➢ "The best advice I ever got about grantmaking came from Gene Wilson, formerly of the Arco Foundation and now with the Kauffman Foundation in Kansas City. He told me that we must always remember that our money is essentially worthless without the nonprofit organizations that serve the clients we want to reach. It is only through these agencies that we are able to fulfill our own goals. We must always be respectful of grantees and conduct our business in the spirit of true partnership."

LESLIE DORMAN, THE STERLING FOUNDATION

fig. 21

Discretionary Grants Programs

REASONS FAMILIES ESTABLISH DISCRETIONARY GRANTS PROGRAMS

Many families find that discretionary grants can be an effective way of encouraging and rewarding trustee participation. Common reasons for developing a discretionary grants policy include:

1. To encourage the ongoing participation of geographically dispersed boards.
2. To help trustees with basic ideological differences get along together, and keep their focus on the core grantmaking of the foundation.
3. To encourage trustees' interest in philanthropy and specific issue areas.
4. To recognize and encourage outside board and volunteer service.
5. To allow for quick turnaround and response to national disasters and local emergencies.
6. To train new or future trustees in the work of the foundation and the grantmaking process.
7. To bring clarity to the overall grantmaking of the foundation, by requiring that all other (non-discretionary) grants must fit strictly within the program areas of the foundation.

REASONS FAMILIES DO NOT ALLOW DISCRETIONARY GRANTS

The majority of family foundations do not use discretionary grants. Some of the most common reasons they give for not allowing discretionary grants include:

1. Family foundations are supposed to be about family — by allowing individuals to make their own grants, you take the family out of the decision.
2. Family foundation grantmaking is not intended to be about one's personal prerogative.
3. The full board is legally required to approve all grants, and allowing discretionary grants — without developing a formal review and approval system — may increase the likelihood of self-dealing or conflict of interest in grants (or at the very least, it may increase the perception of this).
4. Ensuring that discretionary grants are made to eligible grantees and filling out the necessary paper work for a large number of small grants takes significant time and effort.
5. Discretionary grants that are outside of standard guidelines can send mixed messages to grantees and potential grantees, particularly where grants lists are included in the annual report and/or other printed materials.
6. Discretionary grants that do not support the goals and purpose of the foundation make it more difficult for the foundation to be effective in reaching its stated long-term goals.
7. Some family members may feel that discretionary grants are a substitute for a personal responsibility to give and families may not want to encourage this attitude.
8. Once the practice of discretionary grants is started, it can be difficult to keep it from escalating, with a growing percentage being allocated to discretionary grants each year. This is especially true if the number of trustees is increasing as the generations participating in the foundation increase.

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

- Stimulate interest in giving among family members who lack enthusiasm for the foundation's program areas;
- Encourage family members' participation in their own communities;
- Motivate and train young family members to participate in philanthropy;
- Diffuse tension stemming from disagreements over grants;
- Allow board members who do not have much personal wealth to give more generously than they could manage on their own;
- Discourage pressure to use the grant budget for pet projects;
- Include family members in the family's philanthropy who are not serving on the board (e.g., by dividing discretionary funds among family branches to donate as a family unit); and
- Recognize the volunteer services of board members by making small grants to nonprofit organizations where they serve.

Foundations vary widely in how they use discretionary funds. Some allow family members to donate funds to any bona fide nonprofit organization of their liking. Others stipulate that the funds be given only to organizations that fall within their guidelines.

Some family foundations steer clear of discretionary funds, which they regard as potentially troublesome. They believe that:

- Discretionary grants undermine the purpose of the foundation as a family endeavor based on shared values and aims;
- Foundation money should not be used for individual giving or be seen as a substitute for individual giving;
- Discretionary grants are not subject to the same standards of review;
- Discretionary grants confuse grantseekers about the foundation's purpose; and
- The discretionary budget can grow unwieldy as the number of family members multiplies.

The term "discretionary fund" should not be interpreted too loosely. These grants are subject to the same legal

fig. 22 A Foundation Cannot Pay a Personal Gift Pledge

Your foundation cannot pay a personal charitable pledge of a family member, trustee, or other "disqualified person," which includes certain relatives and staff members. For a private foundation to use foundation assets to satisfy the personal obligation of a disqualified person is an act of self-dealing. Once any disqualified person makes a personal pledge, it becomes a personal debt or liability. (For details on disqualified persons, please see Facing Important Legal Issues, p. 59.)

fig. 23 Board Responsibilities for Discretionary Grants

Like all grants from a private foundation, the board of directors as a whole is legally responsible for approving any and all discretionary grants by trustees. In practice, the approval of these grants is often delegated to one trustee (such as the chair) or to a trusted staff person who is given responsibility for ensuring that the grantee is an eligible 501(c)(3) organization, and that there is no self-dealing or conflict of interest associated with the grant. It is particularly important to pay attention to the self-dealing rules. Due to the nature of these gifts, discretionary grants may be more prone to run afoul of self-dealing rules (regardless of the intentions of the individual trustee)." (Excerpted from *Discretionary Grants: Encouraging Participation…Or Dividing Family?* Available from the National Center for Family Philanthropy.) (For a discussion of the rules on self-dealing and conflict of interest, please see Facing Important Legal Issues, p. 59.)

TIP ➢ **Before deciding whether discretionary grants are right for your foundation, discuss the subject with your board. What would you achieve by having them? What problems might they cause? How much of the budget will you allot for discretionary grants? What policies should be set in place before establishing the program?**

GOOD ADVICE ➢ **If your family board holds opposing political and religious beliefs, discretionary funds can generate as much conflict as disagreements over board-consensus grants. To minimize tensions, you may want to prohibit board members from donating discretionary funds to organizations whose work undermines the mission of the foundation or whose missions conflict with the values of other family members.**

requirements as any other grants the foundation makes. To avoid legal problems, appoint either the board chair or a staff person to review all discretionary grants before checks are sent, or include a list of proposed discretionary grants in the board docket for consent review by all board members.

Remember, your Form 990-PF is readily accessible to the public on the Internet. The 990-PF lists your foundation's grants — including discretionary ones. Discretionary grants are written on foundation checks, and the name of your foundation will probably appear on the organization's list of donors. You may view these as grants from individual board members; the public is not likely to see that distinction.

To avoid confusing or misleading grantseekers about your giving, list your discretionary grants separately from your board-approved grants. Explain the purpose of the discretionary grants and why some may fall outside your stated guidelines.

Taking Risks

With well over one million tax-exempt organizations in the United States, foundations have virtually unlimited funding options. Yet, most foundations fund a relatively small universe of nonprofit organizations. Everyone wants to back winners: programs that have met or exceeded expectations, led to positive changes, or become models for others to replicate. But if all foundations funded them exclusively, think of how many innovative and promising programs would never have a chance to flower.

Foundations are relatively unfettered by government interference or public scrutiny — and for a purpose. They are in a position to find creative solutions to stubborn social problems, and that entails the willingness to experiment and risk failure. No foundation would be foolhardy enough to bet all its money on long shots, but you can take risks on promising — if untried people and projects — and take steps to limit your risk.

Maxine and Jonathan Marshall of the Marshall Fund have not shied away from funding controversial grassroots projects, what they call "leap of faith grants." One of their first grants — and one of which they are still most proud — was providing seed money for a shelter for prostitutes and their children in South Phoenix. "We got a request from a former prostitute who wanted to offer temporary shelter and AIDS education to prostitutes," says Maxine, "but she couldn't get any funding. Our seed grant got her started and enabled her to get a large grant from the Robert Woods Johnson Foundation. Ten years later, the organization is still running."

The term "discretionary fund" should not be interpreted too loosely. These grants are subject to the same legal requirements as any other grants the foundation makes.

As you prepare to launch your grantmaking program, you may want to post these watchwords above your computer: Take One Step at a Time, Make Use of All the Resources Available to You, and Don't Be Afraid to Move Forward.

The Sandy River Charitable Foundation takes an innovative approach to supporting riskier projects. It sets aside 5 percent of its assets for making high-risk investments. "This arrangement gives us a lot of flexibility to make different kinds of investments," says Nathanael Berry. "For example, recently we gave a loan at 5 percent to a local organization to use for a capital building fund." Nathanael emphasized that this type of loan is not to be confused with a typical Program-Related Investment because it is *not* money taken from the grants budget.

How to be Helpful Beyond Giving Grants

Giving grants is but one way foundations can help grantseekers and grantees. As you extend your contacts in the field, you can consider offering other forms of support:

- Write letters or make phone calls of support to other foundations;
- Make referrals to other funders that may be interested in the organization's work;
- Host grantwriting workshops to ensure that all applicants are better prepared to seek funding;
- Host meetings to bring together grantmakers with similar funding interests to discuss ways to support grantees;
- Participate in meetings to introduce grantmakers to grantseekers;
- Host meetings to bring together grantees working on the same issues to exchange information and ideas;
- Provide technical assistance to strengthen management and fundraising; and
- Allow grantees to hold occasional meetings in foundation boardroom.

(For more information on this subject, see Paul Ylvisaker's *Small Can Be Effective* in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker*, p.359.)

Summing Up

This chapter began with the caution, "proceed slowly," and it closes with the same reminder. After reading so much about grantmaking, you should have a good idea of both the complexity and flexibility of the grants process. Not long from now, much of the process will become second nature for you and your management, and you can focus more on the important decisions you and your family members will be making. Grantmakng may never be entirely easy, however; because it expresses power, it must be taken seriously.

As you prepare to launch your grantmaking program, you may want to post these watchwords above your computer: Take One Step at a Time, Make Use of All the Resources Available to You, and Don't Be Afraid to Move Forward. In learning grantmaking, as in learning any other discipline, expertise is acquired through action. Be assured, however, that with each grantmaking cycle you will feel a little better prepared, a little more confident, and a little wiser. Grantmaking has the potential of being one of the most satisfying and involving efforts you and your family will ever undertake. Enjoy the adventure.

Venturing Into Public Advocacy Is OK — UP to a Point

fig. 24

Some family foundations and their grantees have begun to venture into the realm of public advocacy, both directly and through their grantmaking. But they should do so carefully, with a firm understanding of the Internal Revenue Service groundrules.

A foundation may conduct "advocacy" in support of a particular viewpoint, so long as the advocacy does not "cross the line" and become political activity or fall into a prohibited category of "lobbying." Advocacy can take the form of advertisements, brochures, pamphlets, books, seminars, or lectures.

Advocacy becomes "political activity" — and taxable — only when it involves statements that support or oppose the election to office of a particular candidate or the conduct of a voter registration drive. Advocacy becomes "lobbying" — and *may* be taxable — if it seeks to affect a legislative body's vote on particular legislation, either through direct appeals to legislators and their staffs or appeals urging members of the general public to contact legislators and their staffs about particular legislation or urging them to vote a particular way on a referendum or bond issue.

Advocacy expenses should not be taxable when a foundation can demonstrate that it is merely making available to legislators or the general public the results of its nonpartisan analysis, study, or research on an issue, or providing technical advice or assistance in response to a written request from a government body, committee, or subcommittee, or acting in "self-defense." "Self-defense" lobbying would be advocacy for or against legislation that would affect a foundation's existence, its powers or duties, its tax-exempt status, or the deductibility of contributions to it.

A foundation may make a grant in support of advocacy by another organization, but not if the activity is something that the foundation itself may not do under the "lobbying" and "political activity" rules.

Recognizing the growing role of advocacy by foundations, the Council on Foundations has created The Paul Ylvisaker Award for Public Policy Engagement — so named to honor one of the leading thinkers and writers in 20th century American philanthropy and a family foundation trustee for many years. This award celebrates grantmakers that help "set the agenda for public consideration and debate." In 2002, The McKnight Foundation, a family foundation in Minneapolis, was selected as the first recipient of this award because of its stance in persuading public and private agencies to resume responsibility as a community for successful transitions from welfare to work. Since 1997, McKnight has committed $27 million to help welfare reform succeed in Minnesota.

Another leading example is the work by the Pew Charitable Trusts to strengthen democratic life in America. Pew's objectives are to restore public trust in elections, increase the civic engagement of young Americans, and improve public understanding of and confidence in government.

INFORMATION IS READILY AVAILABLE

The biggest barrier to more family foundation support of advocacy and lobbying, many observers believe, is the widespread assumption in philanthropy that such activity is illegal. Information on IRS regulations regarding advocacy and lobbying is available but not widely understood. As a result, many lawyers, trustees, and executives in the field have adopted an ultra-cautious approach to advocacy.

The IRS has clarified the groundrules for private foundations and nonprofit organizations to engage to public advocacy and lobbying. Information on IRS rules is available from various sources, including Charity Lobbying in the Public Interest (CLPI), initiated in 1998 by Independent Sector. The three major activities of CLPI include:

- Coordinating a network of persons in several states that provide education and training about lobbying, voter education, and other forms of government relations;
- Working with colleges and universities that provide studies in nonprofit management to encourage and support course offerings that relate to lobbying and nonprofit-government relations; and
- Supporting efforts to provide a web-based location (charity.lobbying@Independent Sector.org) where leaders of charities can learn about lobbying, voter education, and effective government-relations.

A FINAL NOTE

Grants may not be made for the purpose of supporting political activity by a grantee, and a foundation may wish to develop procedures to ascertain whether grantees are engaging in activities, political or otherwise, that make them unsuitable recipients of foundation funds.

Family foundation trustees would do well to ask legal counsel to develop a memorandum of law to guide the board in this whole area. The board might then adopt a resolution setting out its policy on advocacy and lobbying, which could also become part of its grantmaking guidelines.

JOHN SARE AND JOSEPH FOOTE