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Deep Roots: Rowley Properties Is Here to Stay

In the 1950s, it was a dying dairy town — the population was dwindling with no new development in 20 years; this was Issaquah, Washington, in the early days. Then George Rowley Sr. came along and began attracting new residents by building roads and housing. The innovative pioneer later purchased acres of dairy farm land on the Issaquah valley floor. Flash forward 60 years and the properties are a testament to an ever-changing community.

Started formally in 1965, Rowley Properties is a third-generation family business that owns, develops and manages approximately 80 contiguous acres in downtown Issaquah. Today the company is run by Rowley's granddaughter, Kari Rowley-Magill, who continues to stand behind the company and the community. "It is our family's philosophy to not sell the properties. We build them, and we know we are going to own them forever," Rowley-Magill declares. "We love to do this. We are in love with our properties."

Development is complex: In 2011, Rowley properties worked closely with the City of Issaquah to strategize a future for both the company and the community. In a city surrounded by water and mountains, building out and up the hillsides is not an option. Last year unveiled the first of many projects to come under the new development agreement: Homewood Suites — Issaquah's first hotel built eight stories high with a plaza specifically designed with a retail module for community events. "It is complicated, looking at this notebook of rules that is about four and a half inches thick," Rowley-Magill says. "But we needed to demonstrate how Issaquah could thoughtfully urbanize in such a way that the city does not lose its soul."

Navigating a 30-year plan through city hall and an active community is certainly a challenge, but Rowley-Magill has a history of overcoming obstacles. When her father, George Rowley Jr., turned the company over just before The Great Recession, the newly appointed CEO saw the dismal forecasts and immediately jumped into action. "We wanted to be proactive enough that we could minimize any pain that would be caused," she says. "Our mission is to help businesses succeed. Families belong in our community for it to prosper. And we really live that mission, which is what allowed us to get through the recession."

Rowley-Magill knows her father's transition to CEO was harder than her own. The first transition from founder to the next generation is known to be the hardest, "especially if the founder feels they are immortal, which was the case with my grandfather," she joked. In her opinion, the keys to a successful family business are to plan for future leadership, be involved in local and state politics, and most importantly, keep solid relationships with family members in the business. "Family members need the ability to be honest and diplomatic with each other — to listen thoughtfully to what people are saying," she says.

Kelly Rowley Richardson, George "Skip" Rowley Jr. and Kari Rowley-Magill. Photo Courtesy of Rowley Properties.

As for a potential fourth generation, she tells her two sons — who are both enrolled in college right now — to pursue their own paths and learn from the best of the best, then decide if they are interested in the family business. "Becoming a leader in the business of your family is an opportunity that doesn't come along every day," she says. "It's a great path, if you've got what it takes, and I'd like my kids to do the same thing."

The featured family businesses are clients of one of Zions Bancorporation's collection of great banks: Amegy Bank; California Bank & Trust; The Commerce Bank of Oregon; The Commerce Bank of Washington; National Bank of Arizona; Nevada State Bank; Vectra Bank Colorado; and Zions Bank. All other images are stock photography.

Sharing Family Resorts, Cottages and Lodges: Part 2

by Christopher Eckrich, Stephen McClure and Ross Nager

In our previous article on this subject, we delineated the basic steps families utilize when sharing resorts, cottages and lodges. Since then, we have observed the vexing situations confronted by owners of shared vacation property and the solutions they employed. Here we will share some of the complex issues and their possible resolutions.

One issue concerns scheduling, especially when the family grows too big for the number of rooms in the house. Invariably, the senior generation property owner processes all requests for room space. For those blessed with many offspring, family growth quickly outpaces the scheduler's ability to work things out intuitively and informally. We see a predictable pattern whereby attempts are made to continue this informal scheduling, and the scheduler, usually mom or grandma, feels resented and unappreciated and eventually becomes stressed and resentful herself. Changes in attitudes and more patience are not sufficient to resolve the resulting problems.

What is needed is a formal policy structure to manage the numbers. Most often we see a scheduler, not always from the senior generation, who establishes specific rules for how many people can be at the house at one time, how rooms will be assigned, and how the actual schedule will be established. Some require that all requests for the next year be made by a certain date. Requests are then processed according to some basic rules, including:

- Reservations accommodated on a first-come, first-served (which rewards early birds, but often leads

to unproductive competitiveness).

- An annual random drawing for an order-of-week choice (randomness promotes a sense of fairness, but those who draw last option two years in a row may become bitter).
- A rotating preference schedule in which the first year becomes the base year and subsequent years' preference is rotated so that this year's first place becomes next year's last place, second choice moves up to first, and so forth (many variations of this method).
- Agreements on days that are not available, such as days when Grandma and Granddad wish to be alone.
- A system for trading weeks when both parties agree.
- The length of stay that the scheduler must consider (e.g., whether this stay includes full weeks or weekends only).

Responsibilities of Visiting Owners

In addition to the opportunity of staying at the vacation property, families should emphasize the responsibilities of owners and others who stay at the property. A brief set of user expectations is highly encouraged. Such expectations might include the following:

- Gas up the vehicles before you leave.
- Put new sheets on all the beds.
- Report damaged property to the property manager and paid for by the person who did the damage.
- Sweep the kitchen floor, vacuum carpeted areas, clean out the refrigerator, take out the trash, etc.

> By developing policies and procedures before they are needed, undue family conflict can be avoided.

Focusing on responsibilities helps draw people into a sense of common responsibility for this valued asset. Start with a statement about what the property means to the family, the philosophy of care the family wishes to articulate, and then list the specific tasks that need to be completed before leaving.

What If Care Is Violated? The Case of Abuse or Neglect

The family's inability to deal directly with property abuse or misuse will generally lead to resentment and mistrust among family members. The family property leader (often the scheduler or another elected family leader) must be made aware of the abuse and be able to address the parties permitting or committing the abuse. The leader should be able to identify the problem, specify the cost to repair any damage or the impact of the neglect, and issue a warning, referring to the family's usage policy (see rules above). Most important, the leader must be willing to take on this responsibility.

Some families will disallow property use for some time after an infraction, while others will simply ask the abusers to pay for the damage and, upon payment, be given a second chance. What is important here is that the issue be dealt with directly. There are multiple solutions to this problem, but the issue should be dealt with quickly and not allowed to fester. Luckily, when families emphasize responsibility and care for the asset, reports of abuse or neglect are quite infrequent.

Who Can Use the Lodge?

A more common conundrum that families encounter is moving of a property from a first-generation property to a third-generation property in a very short period of time.

At some point, those young toddlers turn into teenagers, and before you know it, they are young adults, independent, living on their own and working full-time jobs. We see families struggle to articulate the age at which young adults have the right to use the facility without their parents present. Family philosophies and culture often will lead to guidance on this issue, but we most often see property use tied to a specific age (e.g., 21 or 25). Clearly communicate this age before family members reach the specified age so that the new policy does not appear to be directed against any individual. Although young people may want to use the place by themselves, over time, a sense of fairness will develop as the same rule applies to successive children. We encounter families that, for liability reasons, do not allow minors to use the facility without the parents present. Liability concerns should be openly discussed with young family members so that they will not take the issue personally, but will recognize the

policy as protecting the entire family and its assets.

Regardless of the generation, use by friends presents an additional issue. We hear repeatedly of certain family members who, because of their social nature, enjoy coming to the cottage with large groups of friends. Increased usage leads to wear and tear on the location and the watercraft or vehicles that are often present. Refusing to allow any friends use of the property often creates a sense of over-control by the family. But if size limitations imply a limit, boundaries on number are commonly accepted. Some families limit the number of guests even during the daytime to avoid the possibility of the property becoming a "party house."

Even more vexing is the extremely common matter of boyfriends, girlfriends and partners. Families may strongly believe that junior generation members age 21 and up should be allowed to use the facility, but they may be uncomfortable allowing girlfriends/boyfriends. These issues are very predictable, and even if you do not face them in the immediate future, they should be addressed sooner rather than later. If limits are to be placed on this behavior, the family also should consider long-term and committed relationships. Families will need to discuss whether there is a point at which a relationship is considered to be acceptable for the couple to be together at the property alone and unsupervised. Each family's overall sense of common values ought to guide this decision.

Toys

We also see an issue arising over young people using motorized craft such as snowmobiles or jet skis, depending on the season. While states are increasingly regulating the legal age at which individuals can use these vehicles, families should especially address the issue and emphasize that state laws must always be followed.

Funding Expenses

The initial owner typically pays all operating and improvement costs. The next generation often chooses to pay costs proportional to their ownership interests unless there is a wide variation in extent of usage and/or ability to pay. In those cases, as well as in many third and later generations, families often change their approaches to funding costs. Some families institute arrangements similar to country clubs, requiring a combination of monthly or annual maintenance fees combined with per-use fees.

Failure to pay required fees results in restrictions on use and, possibly, financial penalties. Of course, even one owner's failure to contribute funds presumably requires the other owners to cover the resulting shortfall. Cumulative failure to pay required fees could result in forfeiture of ownership, with those who provided the extra funds receiving the forfeited interest.

Transitions of Ownership

The passage of time inevitably leads to ownership transitions and increasing complexities of taxation, cost funding, and owners' ability and willingness to agree on management matters. Outright ownership by multiple family members becomes unwieldy because even one dissenting co-owner can stall or even block the will of the majority.

A formal management agreement specifying each owner's rights and obligations might suffice in the sibling generation, but larger families and more valuable properties often require more substantive planning and organizational structures.

A partnership or limited liability company structure, in which the entity owns the property, offers significant advantages. Property ownership and management are centralized under the terms of the governing instrument, which identifies the person(s) with the authority to act. The agreement can specify that major decisions (and which ones) require the vote of a majority, but not necessarily of all the owners, thereby preventing a small number of dissenters from blocking the action. It also can provide personal liability protection, restrictions on terms of transferring ownership interests, consequences of an owner's failure to contribute toward property costs, events that can require sale of the property and much more. Detailed property usage policies and any associated fees often are encompassed in a separate document.

Unfortunately, each generation of owners must contend with the estate tax consequences of passing their entity interest. And, much as can be the case with respect to the family's operating business, the new generation of owners may have varying levels of enthusiasm about ownership and the resulting obligations.

So you might consider the initially complex step of placing the property in a long-term irrevocable trust. Some families even go so far as to endow the trust with cash and/ or securities intended to cover operating costs over a long-time period. Although this requires effort in the beginning, later the children can skip tax consequences of the contribution to the trust. Thoughtful consideration also must be given to the terms of a trust

instrument that cannot be amended over its existence, which potentially could be decades or longer.

Depending upon the value of the property and endowment contributed to the trust, it may be possible to avoid gift, estate and generation-skipping taxes for many generations. Centralizing management in the hands of one or more trustees mitigates ownership and management disagreements. The trustee(s), presumably in cooperation with family members, create and enforce property usage policies and any associated fees.

Unwilling Owners

Inevitably, some family members will have no interest in the property, will desire to extract their share of the capital value for other purposes or will not want or be able to cover their shares of the annual operating costs. Forcing continued ownership can be detrimental to family relationships, just as forced ownership of the family's business can be problematic.

In anticipation of this possibility, you should consider ways to allow family members to sell their interests. Of course, unlike the family's operating business, the property is unlikely to generate cash, even over time, to finance buyouts. By agreement, you can prearrange the terms by which some may sell and others may buy. Cash down payments and notes payable over a reasonable time period are common.

Of course, forcing one or more owners to buy can be problematic. So, you should consider a provision that requires the sale of the entire property if those who desire to retain ownership are unwilling or unable to buy out those who want to sell.

You should get professional advice concerning the income, gift, estate and generation-skipping tax considerations of the ownership and funding approaches that appeal to your family.

For those who own a joint property in the first or second generations, this level of planning may seem overly complex. However, the value of planning contributes to the effectiveness of predicting what issues are likely to surface before they arise and addressing them in advance. By developing policies and procedures before they are needed, undue family conflict can be avoided.

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Making Loans to Children

From time to time we encounter families who are facing the awkward decision of whether or not to offer money, either in the form of a loan or a one-time gift, to one or more of their children.

The circumstances surrounding the situations vary; a child may be out of work and may need to invest in further education or career training. Perhaps a son faces an unfortunate financial hardship due to divorce or a daughter suffers from poor cash flow due to investments gone sour. Regardless of the circumstances, parents often feel the urge to help.

Perhaps out of a combination of genuine parental care, success of the business and their ability to determine how money is allocated, parents commit to financially assisting one or more of their children. By helping, the parents risk creating a situation that they did not intend, one that may strain their relationship with their children as well as among siblings and can potentially harm the potential for next generation success as leaders and owners in the business.

In deciding to make a loan to a child, some parents consider the loan to be a very natural and normal response as a loving and supporting parent. Perhaps the parent feels guilt for time directed toward the demands of building a business and growing a legacy and away from the emotional needs of the family. Maybe the business owners recognize disparities between their children's financial success. After all, it's their flesh and blood in a vulnerable and unfavorable financial position. This is their child who is enthusiastically agreeing to pay back the loan promptly and in full. But in their haste to assist, parents may have missed the opportunity to evaluate how to ensure the greatest likelihood of repayment and how to avoid their worst-case scenario.

However, parents can avoid many unfortunate outcomes. If you have chosen to make a loan to one or more of your children, we recommend that you consider the following suggestions:

First, treat the transaction as serious and professional, with promissory notes, written terms of the loan (i.e., loan amount, interest, repayment schedule, provisions in the event of a late payment), and even attorney review. In this way you gain the advantage of reinforcing the obligations of the loan and the ramifications if it is not repaid.

In their haste to assist, parents may have missed the opportunity to evaluate how to ensure the greatest likelihood of repayment and how to avoid their worst-case scenario.

Second, invite the child's participation in drafting the agreement. The child's involvement not only allows for a greater sense of ownership of the agreement, but also ensures his or her familiarity with the terms and provides the opportunity to discuss any concerns or what-ifs around possible ramifications.

Obviously, the written agreement alone cannot guarantee that the loan will be repaid. Parents should acknowledge the possibility that they may never be paid back in full. In fact, we are all too familiar with great intentions to repay on time fading to interrupted pay schedules, excuses, and silence that strain the parent/child relationship and even compromise access to grandchildren.

We understand that in most cases parents don't want to nag, confront or even elevate the situation legally to recover the loan balance. They still have a family business to run together, grandchildren to enjoy and leadership to transfer to their children with the greatest odds of success. Indeed, we recommend that parents who are deciding whether to make a loan to a child be prepared to forgive the balance should the agreement break down. In this sense, then, the parents should be cautious to make loans only up to the amount they are willing to forgive.

Here are several recommendations on how to forgive a loan properly:

First, if you are forgiving the loan, choose to consider it a gift instead and recognize the parity concerns with your other children. The loan should be viewed as an advance on the debtor child's inheritance. That is, an amount equal to the forgiven balance should be taken off the top for that child before the estate is divided among all the siblings.

Second, if there was a promissory note, especially one with an interest amount, terminate (call) the note. In so doing, you are eliminating the possibility that in the unfortunate circumstance of your death, other children will inherit the role of creditor to their sibling.

Finally, as is important in many family business affairs with multiple generations involved, make open communication about your financial decisions a priority when those discussions have an impact on your children. By explaining what is happening (making or forgiving a loan), what terms are agreed upon, whom the transaction involves and the reason behind your decisions, you are removing any potential doubt and greatly assisting the next generation to succeed as a cohesive and cooperative team.

Provided by The Family Business Consulting Group Inc.

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