

CHAPTER 1

The State of Foundation Giving, 2003

- 2002 giving remained steady at an estimated \$30.3 billion
- Assets decreased an estimated 10 to 12 percent in 2002
- 2003 giving likely to decrease, but less than might be expected

In contrast to the exuberance that characterized the late 1990s, the past year was filled with fairly consistent pessimism. Pundits who predicted that the stock market would continue to rise now pondered when it might begin to rebound. Governments that used the surpluses of the late 1990s to increase spending or reduce taxes were now proposing cuts in services. Business leaders eliminated jobs in the wake of reduced profits. Citizens across the country worried about the impact of terrorism and the prospect of war on their personal safety and economic security.

The nonprofit sector felt the impact of all of these changes. Nonprofits experienced remarkable growth during the economic boom years, both in their overall number and in the budgets of individual organizations. Many that had become accustomed to steady annual increases in their basic income—not to mention successful special project and capital campaigns—now faced flat income projections at best. With the prospect of cutbacks in government funds looming and persistent talk of a dip in private support, nonprofit organizations feared that they would be unable to maintain basic programs and services.

The rapid shift from unbridled optimism to a general sense of pessimism made it easy to lose sight of the current state of philanthropy. Despite the changed economic environment, overall private giving by individuals, foundations, and corporations grew 1 percent in 2002 to \$240.9 billion.¹ For the more than 61,800 U.S.

grantmaking foundations, estimated giving remained nearly unchanged at \$30.3 billion, compared to \$30.5 billion in 2001 (Figure 1). Individual nonprofits may have experienced pronounced reductions in support, yet private gifts overall were up 21 percent since 1999, the peak year of the recent economic boom. Foundation giving rose 30 percent in those same three years.

The relative stability of foundation giving in 2002, despite three consecutive years of stock market losses, can be attributed to several factors, including giving by newly established foundations, a continuing high level of new gifts into existing foundations, ongoing payment of commitments made in the aftermath of the September 11, 2001, attacks,² and an effort on the part of many foundations to maintain stable levels of giving—or at least to limit reductions—in the face of government cutbacks. Overall, 2002 foundation giving ranked as the second highest amount ever paid out in a single year, while also representing the first decrease in support since 1983.

Giving by independent foundations decreased modestly in 2002. Independent foundations, including family and “new health foundations” (formed from health care conversions), gave an estimated 1.5 percent less than in 2001, which was up 11.1 percent over 2000.³ This small decline ended a six-year run of double-digit growth in giving. It also represented the first dip in independent foundation giving since the Foundation Center began separate tracking of these foundations in 1987. (For more

1. See M. Brown, *Giving USA 2002: The Annual Report on Philanthropy*, New York: AAFRC Trust for Philanthropy, 2003. Giving by independent, corporate, community, and operating foundations totaled 12.6 percent of all private giving in 2002.

2. In response to the 9/11 attacks, independent and community foundations pledged approximately \$279.5 million, of which roughly two-fifths was paid out in 2002. Corporations and corporate foundations pledged \$682.4 million, of which approximately one-third was paid out in 2002. (Corporate foundations alone pledged \$349.1 million, or 51 percent of all corporate cash contributions.) For information on institutional giving in response to the 9/11 attacks, see L. Renz, *Giving in the Aftermath of 9/11: An Update on the Foundation and Corporate Response*, New York: Foundation Center, November 2002.

3. Percentages based on the Foundation Center’s 2003 “Foundation Giving Forecast Survey.” A total of 747 surveyed foundations provided estimates of changes in their 2003 giving. For more information on the survey sampling base, see L. Renz and S. Lawrence, *Foundation Growth and Giving Estimates: 2002 Preview*, New York: Foundation Center, 2003.

detailed comparisons of estimated giving by foundation type, see Chapter 4.)

In contrast to independent foundations, community foundations increased their giving by an estimated 2.6 percent in 2002, following a 10.9 percent rise in 2001. This gain represented the slowest growth in community foundation giving since 1994 and reflected a decline in gifts received from donors.

Corporate foundation giving increased by an estimated 2.2 percent in the latest year, following a 10.0 percent gain in the prior year. A small rise in the level of new gifts into corporate foundations in 2001 and continued payment of pledges made in response to the 9/11 terrorist attacks were the primary reasons for this modest increase.

Despite flat giving by foundations in 2002, overall support was close to double that reported in 1997. Even adjusted for inflation, giving by foundations rose 69 percent during this five-year period. Inflation-adjusted foundation giving per capita grew by 62.5 percent, from \$52.13 in 1997 to \$84.69 in 2001 (Figure 2). Foundation giving also increased from 0.17 percent to 0.24 percent of Gross Domestic Product (GDP) over the same period (Figure 3).⁴ Driving this growth in foundation giving was the increase in both the number and the assets of foundations.

The soaring stock market and robust economy were the key factors responsible for the increased value of existing foundation assets and the amount of new gifts

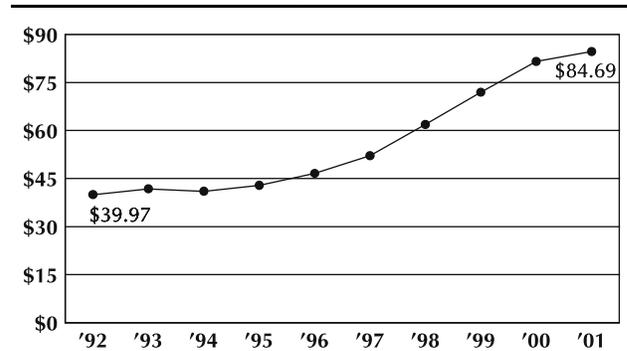
4. Between 1996 and 2001, private charitable giving from all sources—including individuals, corporations, and foundations—as a share of Gross Domestic Product rose from 1.8 percent to 2.1 percent. For additional information, see *Giving USA 2003*.

and bequests from donors to their foundations in the latter half of the 1990s. The rapid rise in personal wealth during this period also led many individuals to create foundations. Stock market losses, a sluggish economy, and record giving levels by foundations caused a nearly 4 percent decline in the value of foundation assets in 2001 and an estimated 10 to 12 percent decline in 2002.⁵

The loss in the value of foundation assets in 2001 and 2002 suggests that foundation giving could decline sharply in 2003. However, other factors may

5. Percentages based on the Foundation Center's 2003 "Foundation Giving Forecast Survey." A total of 733 surveyed foundations provided estimates of changes in their 2002 assets.

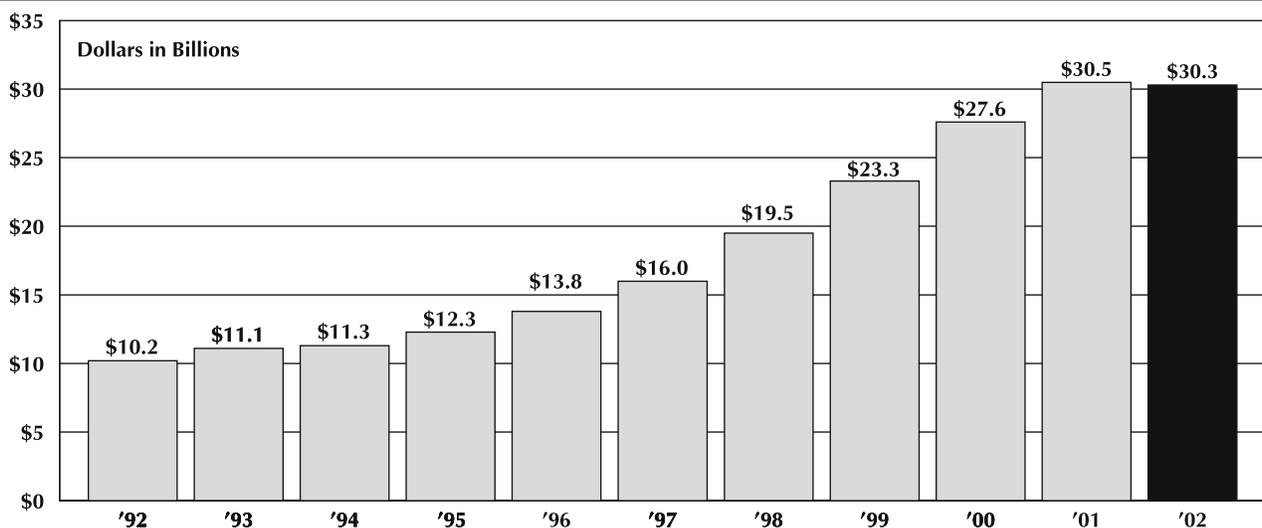
FIGURE 2. Foundation Giving Per Capita, 1992 to 2001 (Constant Dollars)*



Source: The Foundation Center, *Foundation Yearbook*, 2003.

*Constant 1992 dollars based on annual average Consumer Price Index, all urban consumers. See U.S. Census Bureau, *Statistical Abstract of the United States: 2002* (122nd Edition), Washington, DC, 2001. Figures on U.S. population are based on resident population figures. See U.S. Census Bureau at www.census.gov.

FIGURE 1. Change in Foundation Giving, 1992 to 2002*

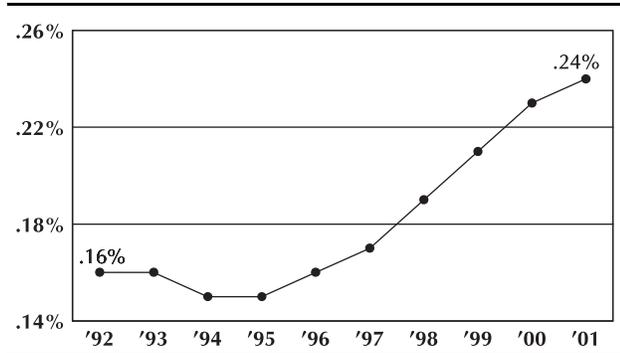


Source: The Foundation Center, *Foundation Yearbook*, 2003.

*Figures estimated for 2002. All figures based on current dollars.

mitigate reductions in giving overall. Most importantly, many foundations—including most of the nation’s largest ones—are permanently endowed and follow long-term payout strategies. These foundations normally do not make sudden reductions in giving, even in depressed markets. (In contrast, individuals’ personal giving usually mirrors fairly directly real or anticipated changes in their net worth.)

FIGURE 3. Foundation Giving as a Share of GDP, 1992 to 2001 (Constant Dollars)*

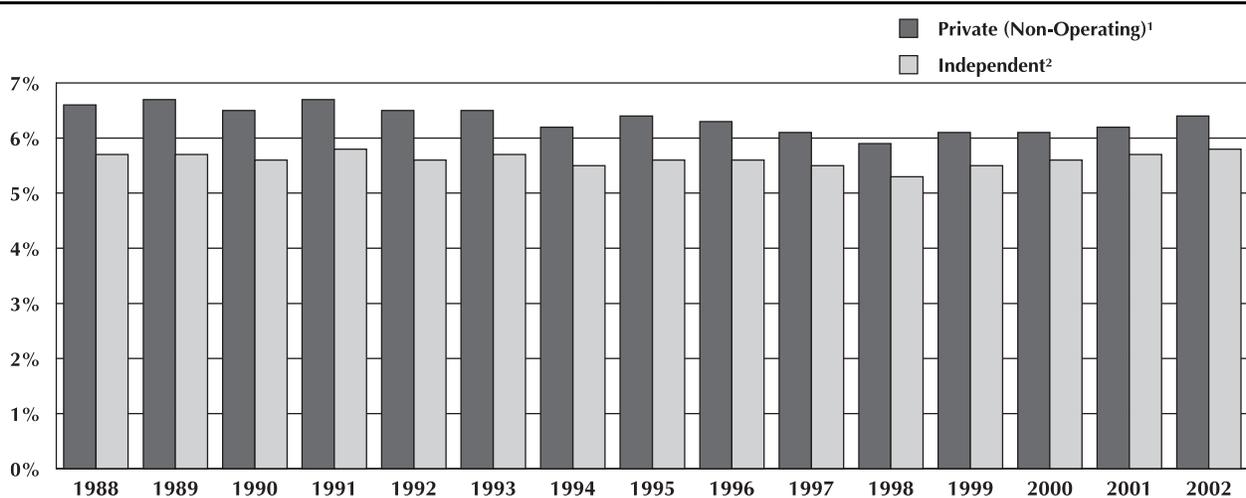


Source: The Foundation Center, *Foundation Yearbook*, 2003.
 *Percent change in constant 1992 dollars based on annual average Consumer Price Index, all urban consumers. See U.S. Census Bureau, *Statistical Abstract of the United States: 2002* (122nd Edition), Washington, DC, 2001. Figures on U.S. Gross Domestic Product (GDP) are from the U.S. Bureau of Economic Analysis.

The federal payout requirement for private, non-operating foundations also helps to stabilize foundation giving in periods of economic decline. By law, independent and corporate foundations must pay out each year in charitable distributions at least 5 percent of the value of their assets in the preceding year. (They may carry forward over several years payout in excess of 5 percent.) Figure 4 shows that estimated independent foundation giving in 2002 was 5.8 percent of the prior year’s assets, up slightly from 5.7 percent in 2001. Smaller independent foundations exceed this rate because they typically maintain minimal endowments and instead serve as “pass-throughs” for charitable giving by their donors. For larger, endowed independent foundations, increased payout may reflect a desire to maintain stable giving levels despite losses in asset value or a decision to spend down assets in a move toward termination.

For corporate foundations, payout rose from 20.7 percent in 2001 to 21.6 percent in 2002. Unlike larger independent foundations, corporate foundations generally do not maintain substantial endowments and instead fund grant budgets through annual gifts from their corporate donors—hence, the ratio of giving to prior year’s assets is higher. Many corporations make additional gifts into their foundations in periods of higher earnings and draw down these assets during periods of weak earnings.

FIGURE 4. Private (Non-Operating) and Independent Foundation Giving as a Share of Prior Year’s Assets, 1988 to 2002*



Source: The Foundation Center, *Foundation Yearbook*, 2003.

*Giving figures for 2002 based on estimates.

¹Figures exclude private foundations that have been defined by the IRS as “Operating” foundations. These foundations are not subject to the same payout requirement as other private foundations. Community foundations are excluded as they are grantmaking public charities, not private foundations.

²Figures exclude private foundations identified by the Foundation Center as serving as vehicles for corporate philanthropy, many of which operate as “pass-through” foundations.

Note: Private (non-operating) foundations are required to pay out each year at least 5 percent of the value of their assets in the preceding year. (They may carry forward payout in excess of 5 percent over several years.) “Qualifying Distributions” is the amount used in calculating the required 5 percent payout and includes total giving, as well as reasonable administrative expenses, set-asides, program-related investments (PRIs), operating program expenses, and the amount paid to acquire assets used directly for charitable purposes. Actual payout can only be calculated for individual foundations. The ratio of total giving to prior year asset

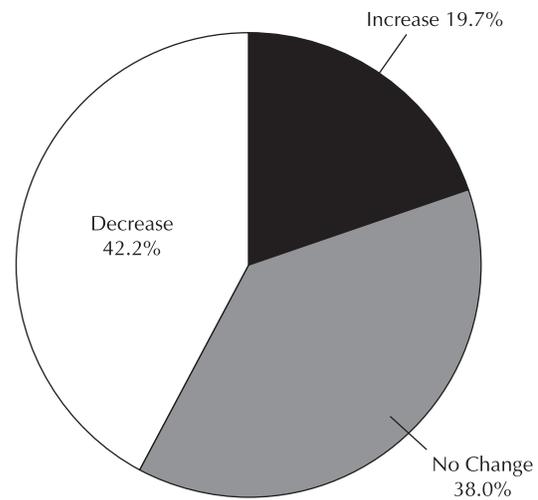
In contrast to independent and corporate foundations, community foundations, as public charities, have no payout requirement. Nonetheless, their giving typically amounts to between 7 percent and 8 percent of the value of their prior year's assets.

Figure 5 illustrates the changes in foundation giving in inflation-adjusted dollars since 1975 (the first year for which comprehensive information is available). In the recessions of 1980, 1981-82, and 1990-91, foundation giving in real dollars did not decline and, in fact, *increased slightly*. Unlike those recessions, giving during the 2001-02 recession declined slightly.

To assess the outlook for foundation giving in 2003, the Foundation Center's new "Foundation Giving Forecast Survey" asked respondents to indicate expected changes in their giving in the current year. Roughly one-fifth of respondents expected their giving to increase in 2003—including at least a few of the nation's largest independent foundations and several leading corporate and community foundations—and close to two-fifths expected their giving to remain about the same (Figure 6). Substantially less than half of respondents (42.2 percent) indicated that their giving would decline, with larger foundations being more likely to report decreases than smaller foundations.⁶ Furthermore, just over half of the respondents reporting declines expected the reduction to be relatively modest, ranging from 1 to 10 percent. These

findings suggest that foundation giving will decline in 2003, although not as dramatically as might be feared given the state of the economy and stock market. In addition, giving by newly established foundations, while a relatively small proportion of total giving,

FIGURE 6. Anticipated Changes in 2003 Foundation Giving*



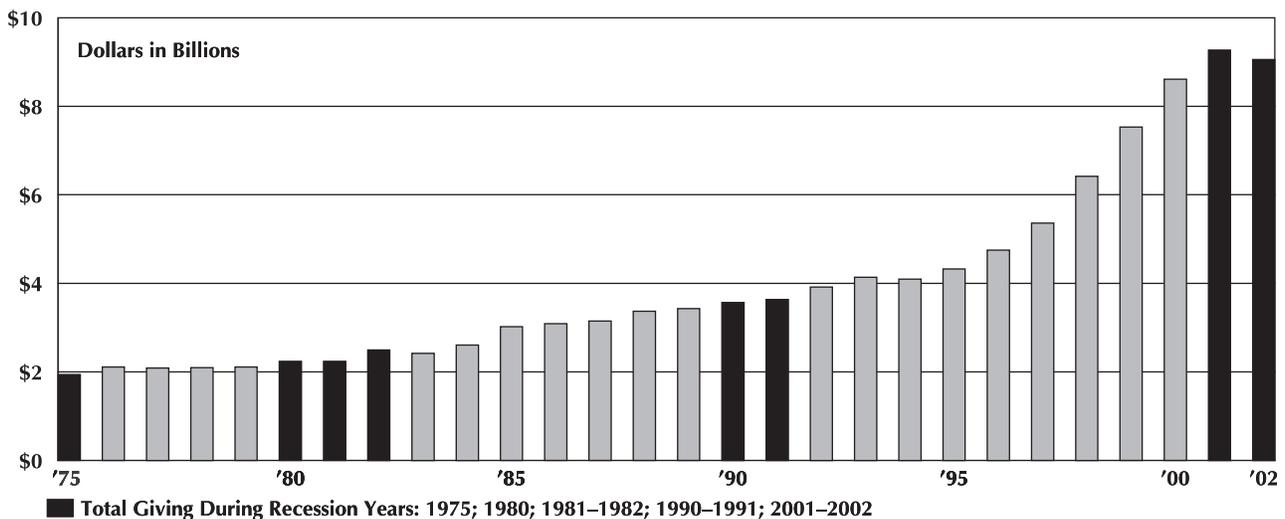
No. of Respondents = 747

Source: The Foundation Center, *Foundation Yearbook*, 2003.

*Figures based on the Foundation Center's 2003 "Foundation Giving Forecast Survey." For more information on the survey sampling base, see "Methodology" in Appendix A.

6. In general, the largest U.S. foundations are more likely to have endowments that include major equities holdings. As a result, they are more likely to have lost asset value in the current bear market.

FIGURE 5. Total Giving by Foundations, 1975 to 2002 (Constant 1975 Dollars)*



Source: The Foundation Center, *Foundation Yearbook*, 2003.

*Figures estimated for 2002. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers. See U.S. Census Bureau,

will help to further moderate the overall decrease in giving.

Although foundation giving will likely decline in the short term, the recent establishment of new and sometimes very large foundations and the transfer of exceptionally large gifts and bequests from donors to their existing foundations will help fuel a return to growth in foundation giving in the long term. While information on foundation creation between 1999 and 2001 remains incomplete, the number of larger foundations established during the 1990s has far exceeded the birth rates of the 1980s, the decade with the highest birth rates up to then. In 2001, the number of active foundations increased by more than 5,200, second only to 2000. As many of these new foundations receive additional assets over the next ten to twenty years, they will contribute substantial resources to the nation's nonprofit community.

In addition, a provision in the federal tax code encourages the continued growth of new and existing foundations. A temporary provision in the tax law permitting living donors to deduct the current market value of gifts of appreciated property to private foundations expired in 1994. It was reinstated twice after

1995 for brief periods, encouraging gifts from donors and new foundation creation, but it expired again in mid-1998. The provision was finally made a permanent part of the tax code in late 1998.⁷

The U.S. nonprofit community benefited from foundation giving in 2002 that was close to double the amount it had received five years earlier. Looking ahead, economic indicators suggest that foundation giving will decrease for at least the next couple of years. Several factors will help to moderate the overall decline, but until the nation's economy begins a sustained upturn, a return to steady increases in U.S. foundation giving appears unlikely.

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7. Alternatively, reductions in personal income and estate tax rates could slow the establishment of new foundations and reduce the growth of existing foundations through gifts or bequests. As evidenced by the decline in the rate of foundation formation immediately following the 1986 personal income tax reductions, decreases in taxes for wealthy individuals lower the incentive for charitable giving.

