

The State of Foundation Giving, 2004

- **2003 giving declined 2.5 percent to an estimated \$29.7 billion**
- **Assets increased an estimated 9 to 11 percent in 2003**
- **2004 giving likely to grow modestly**

Following several years of declining wealth and gloomy forecasts, the nation's economic fortunes began to rebound in 2003. The stock market realized a double-digit gain for the first time since 1999, and several sectors of the economy reported strong upticks in sales and earnings. Even the technology sector, which was the hardest hit in the downturn, generated enthusiastic predictions for the future. Tempering this optimism was the United States' launching of the war in Iraq, which generated concern about renewed terrorist attacks and uncertainty about the durability of the recovery.

For U.S. nonprofits, 2003 represented the toughest fundraising year in recent memory. Cutbacks in government funding, combined with slower overall growth in private contributions, forced many organizations to cut back on staffing and services and, in some cases, to close their doors entirely. Most organizations, however, had anticipated continuing fundraising difficulties and prepared accordingly by, for example, postponing capital campaigns and program expansion and identifying ways to reduce costs with the least impact on programs.

Improved stock market performance and the beginning of an economic recovery also helped to boost private contributions by more than might have been expected at the start of the year, thereby offsetting some of the reduced funding experienced by the sector in prior years. Overall, private giving by individuals, foundations, and corporations grew a modest 2.7 percent to \$239.3 billion in 2003.¹ For the nearly 65,000 U.S. grantmaking foundations, however, estimated giving declined 2.5 percent to \$29.7 billion from

\$30.4 billion in 2002 (Figure 1). Nonetheless, foundation giving remained more than 27 percent higher (15.1 percent after inflation) than in 1999.

The reduction in foundation giving in 2003 resulted primarily from a double-digit loss in foundation assets from 2000 through 2002. Also contributing to this decrease was the completion in 2002 of exceptional giving in response to the 9/11 attacks.² Yet several factors helped to mitigate the overall decrease in support, including startup grantmaking by newly established foundations, a continuing high (albeit decreased) level of new gifts into foundations, improved portfolio performance for some funders, and a commitment by many foundations to maintaining stable levels of giving (especially in light of cutbacks in government funding programs). Consequently, 2003 foundation giving ranked as the third highest amount ever and only the second decrease in support since 1983.

Independent foundations showed the largest reductions in giving in 2003. Overall, independent foundations, including most family and "new health foundations" (formed from health care conversions), gave an estimated 3.3 percent less in 2003, following a 1.9 percent decrease in 2002.³ Despite this nearly \$1.2 billion decline over two years, estimated 2003 independent foundation giving of \$22.5 billion ranked as the third highest level on record. In addition, this 5.1 percent decrease over two years appears modest in light of the 10.9 percent drop in independent foundation assets between 2000 and 2002. (For more detailed comparisons of estimated giving by foundation type, see Chapter 4.)

Corporate foundation giving decreased by an estimated 2 percent in 2003, following a 5.3 percent gain in 2002. This was the first decline recorded since the Foundation Center began tracking data on all corporate foundations in 1987. Exceptional giving in response to the 9/11 attacks was generally completed in 2002, accounting for part of this reduction in support.

Helping to moderate the decrease was a continued high level of new gifts into corporate foundations through 2002 and close to 9 percent growth in the number of corporate foundations since 2001.

In contrast to independent and corporate foundations, community foundations increased their giving by an estimated 1.5 percent in 2003. Although positive, this change represented the slowest growth in community foundation giving since 1994. A continuing high level of new gifts into community foundations helped to sustain overall giving.

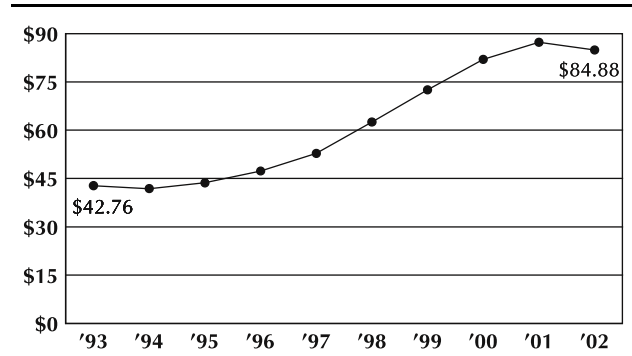
Despite two consecutive years of decreases in overall giving, 2003 foundation giving was still more than 50 percent higher than in 1998. Even adjusted for inflation, giving by foundations grew 35 percent during this five-year period. Inflation-adjusted foundation giving per capita grew by 35.7 percent, from \$62.53 in 1998 to \$84.88 in 2002 (Figure 2). Foundation giving also increased from 0.20 percent to 0.23 percent of Gross Domestic Product (GDP) over the same period (Figure 3).⁴ Driving this growth in foundation giving were consistent increases in the number of foundations and gains in foundation assets through 2000.

The soaring stock market and robust economy and the amount of new gifts and bequests from donors to their existing foundations were the key drivers for the increased value of foundation assets in the latter half of the 1990s. The rapid rise in personal wealth during this period also led many individuals to create foundations. Between 2000 and 2002, however, the stock market decline, a sluggish economy, and record giving levels by foundations caused a 10.5 percent drop in the value of foundation assets overall. (Many of the largest

foundations experienced a much larger decrease in their assets.) The return of positive stock market performance in 2003 helped to reverse this trend, and foundation assets began to rebound.⁵

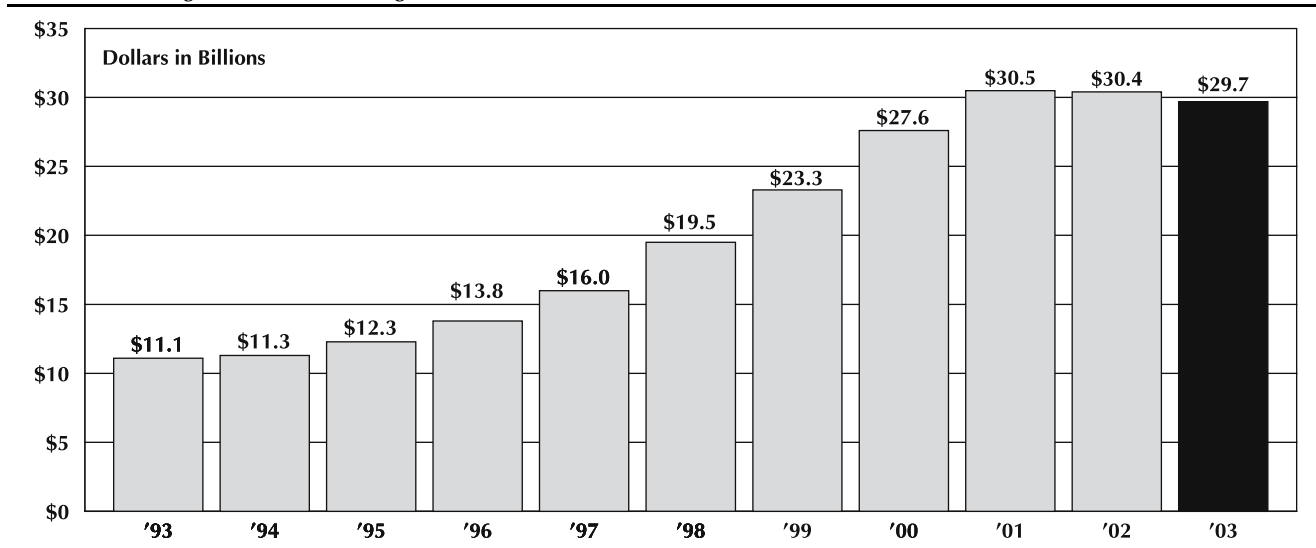
Increased assets will likely translate into renewed growth in foundation giving in 2004. However, despite the call of some in the field for increases in support on a par with asset gains, growth in giving may be more modest. Most importantly, many foundations—including most of the nation’s largest ones—are permanently endowed and follow long-term payout strategies. These strategies helped to mitigate reductions in foundation giving through 2003 but will also result in a slower rise in giving during an economic rebound.

FIGURE 2. Foundation Giving Per Capita, 1993 to 2002 (Constant Dollars)*



Source: The Foundation Center, *Foundation Yearbook*, 2004.
 *Dollars in billions. Constant 1993 dollars based on annual average Consumer Price Index, all urban consumers, as reported by U.S. Department of Labor, Bureau of Labor Statistics, as of February 2004. 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, 1993 to 2003*



Source: The Foundation Center, *Foundation Yearbook*, 2004.
 *Figures estimated for 2003. All figures based on current dollars.

For example, Figure 4 illustrates the lag between the decline in inflation-adjusted foundation assets in 2001, and the subsequent decrease in real-dollar giving, which did not occur until 2002. (In contrast, individuals' personal giving usually mirrors fairly directly real or anticipated changes in their net worth.)

The federal payout requirement for private, non-operating foundations also helps to stabilize foundation giving in both good and bad times. 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 payout in excess of 5 percent over several years.) Figure 5 shows that estimated inde-

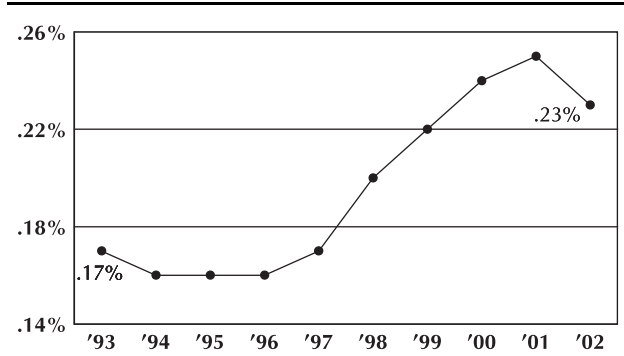
pendent foundation giving in 2003 was 6.2 percent of the prior year's assets—the highest ratio recorded since the Foundation Center began separate tracking of independent foundations in 1987. Smaller independent foundations generally exceed this rate because many of them maintain minimal endowments and 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.⁶

For corporate foundations, payout rose from 22.2 percent in 2002 to 23.5 percent in 2003. 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 the prior year's assets is higher. Many corporations make additional gifts into their foundations in periods of stronger earnings and draw down these assets during periods of weaker earnings.

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

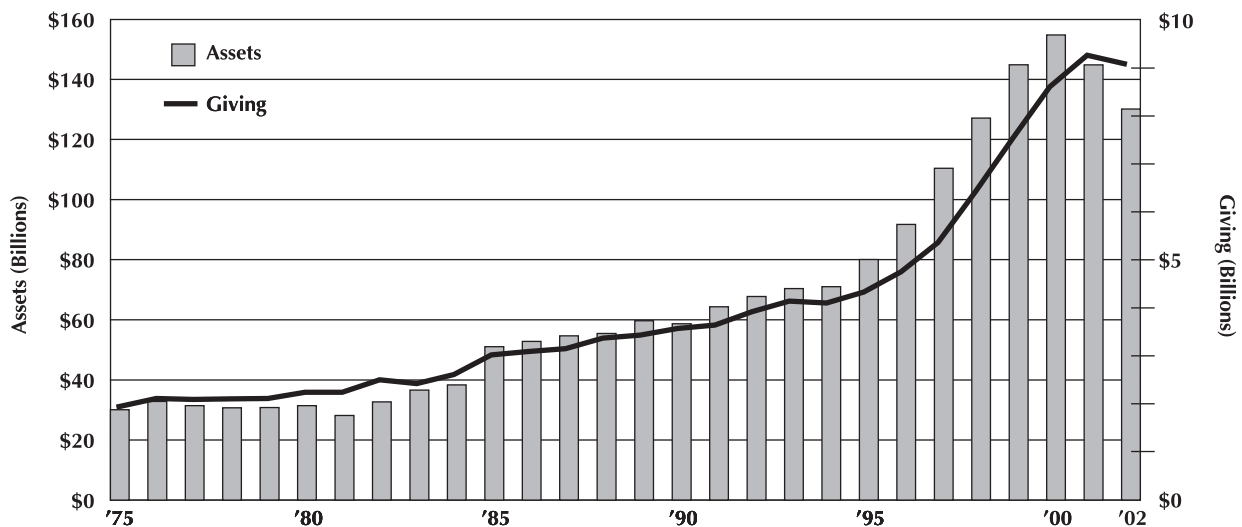
Figure 6 illustrates the changes in foundation giving in inflation-adjusted dollars since 1975 (the first year for which comprehensive information is available). In the recessions of 1980, 1981-82, 1990-91, and 2001, foundation giving in real dollars did not decline and,

FIGURE 3. Foundation Giving as a Share of GDP, 1993 to 2002 (Constant Dollars)*



Source: The Foundation Center, *Foundation Yearbook*, 2004.
 *Percent change in constant 1993 dollars based on annual average Consumer Price Index, all urban consumers. (Source: U.S. Department of Labor Statistics, as of February 2004). Figures on U.S. Gross Domestic Product (GDP) are from the U.S. Bureau of Economic Analysis.

FIGURE 4. Change in Foundation Assets and Giving, 1975 to 2002 (Constant Dollars)*



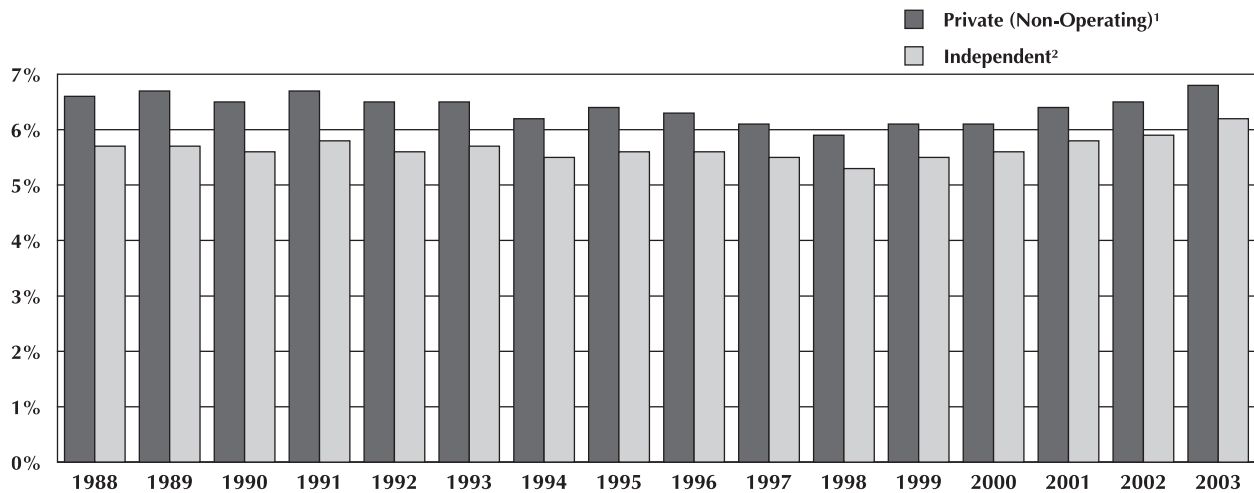
Source: The Foundation Center, *Foundation Yearbook*, 2004.
 *Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers as reported by the U.S. Department of Labor, Bureau of Labor Statistics, as of February 2004.

in fact, increased slightly. However, giving decreased for two consecutive years following the end of the latest recession.

To assess the outlook for foundation giving in 2004, the Foundation Center’s annual “Foundation Giving Forecast Survey” asked respondents to indicate expected changes in their giving in the current year.

Responding to the improved economic climate, close to half of foundations (45.4 percent) indicated that their giving would increase in 2004, while more than one-third (36.4 percent) expected no change in their level of giving (Figure 7).⁷ Among foundations expecting an increase, most (61 percent) predicted increases in the range of 1 to 10 percent. Only 18 percent of

FIGURE 5. Private (Non-Operating) and Independent Foundation Giving as a Share of Prior Year’s Assets, 1988 to 2003*



Source: The Foundation Center, *Foundation Yearbook*, 2004.

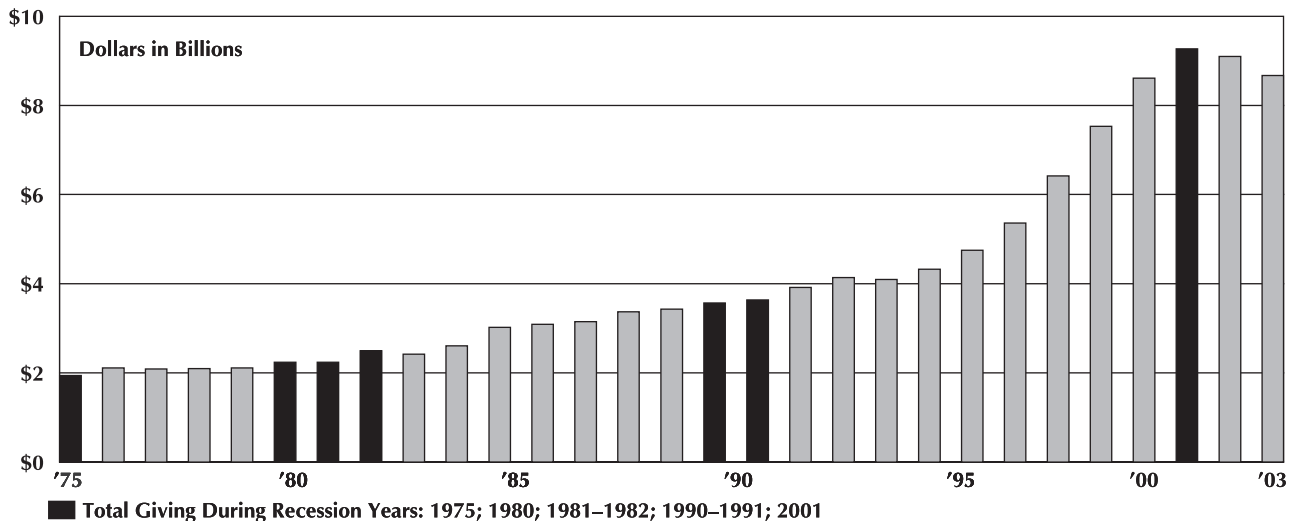
*Giving figures for 2003 based on estimates.

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 investments 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, 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 values illustrated above therefore serves as only a rough proxy for payout.

FIGURE 6. Total Giving by Foundations, 1975 to 2003 (Constant Dollars)*



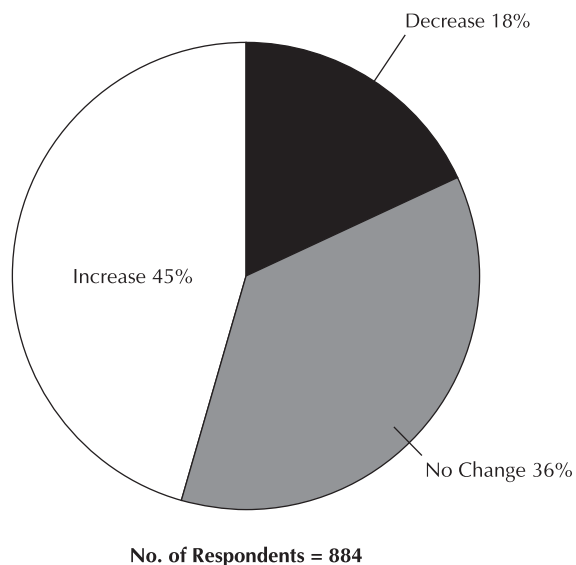
Source: The Foundation Center, *Foundation Yearbook*, 2004.

*Figures estimated for 2003. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers, as reported by U.S. Department of Labor, Bureau of Labor Statistics, as of February 2004.

foundations expected to decrease their giving, with the majority (54.8 percent) placing the reduction at between 1 and 10 percent. These findings suggest that foundation giving overall will increase in 2004. However, giving increases are likely to lag behind asset increases, as foundations recover from three years of maintaining giving levels and fulfilling large grant commitments in the face of reduced resources. (See *Foundation Growth and Giving Estimates: 2003 Preview* for a more detailed analysis of the 2004 survey findings.)

Helping to boost foundation giving in both the short and long term will be the new and sometimes very large foundations established in the past several years and the transfer of exceptionally large gifts and bequests from donors to their existing foundations. While information on foundation creation between 2000 and 2002 remains incomplete (newly established foundations have up to three years to begin grantmaking), the number of larger foundations established during the 1990s has far exceeded the number established in the 1980s, the decade with the highest birth rate up until then. New formation slowed in the sluggish economic climate of the early 2000s. Nonetheless, the number of larger foundations established since the turn of the century has already exceeded the number of active larger foundations formed throughout the decade of the 1970s. 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.⁸

FIGURE 7. Anticipated Changes in 2004 Foundation Giving*



Source: The Foundation Center, *Foundation Yearbook*, 2004.

*Figures based on the Foundation Center's 2004 "Foundation Giving Forecast Survey." Due to rounding, percentages do not total 100. For more information on the survey sampling base, see "Methodology" in Appendix A.

Another factor helping to boost the growth of foundations was the addition of a permanent provision to the federal tax code in 1998 permitting living donors to deduct the current market value of gifts of appreciated property to private foundations. (Temporary provisions had been in effect throughout much of the 1990s.) More recently, Congress has considered adding provisions to the federal tax code that would limit the amount and type of administrative costs that a foundation could count toward its charitable distribution requirement. However, it remains uncertain how much of an increase in giving would result and, more importantly, whether these measures will ever be passed.

In general, U.S. foundations weathered the recent economic downturn without resorting to extreme cuts in giving. The number of grantmaking foundations also continued to grow, despite reductions in the nation's wealth. Looking ahead, consistent improvements in the nation's economic fortunes should contribute to increases in giving by foundations. Given continued unevenness in the country's economic recovery and an uncertain political climate, however, these gains are likely to be modest at best for at least the next several years.

June 2004

Endnotes

1. See M. Brown, *Giving USA 2004: The Annual Report on Philanthropy*, New York: AAFRC Trust for Philanthropy, 2004. Giving by independent, corporate, community, and operating foundations totaled 12.4 percent of all private giving in 2003.
2. In response to the 9/11 attacks, independent and community foundations pledged approximately \$322.9 million, nearly all of which was paid out in 2001 and 2002. Corporations and corporate foundations pledged \$714.1 million. (Corporate foundations alone pledged \$358 million, or half of all corporate contributions.) For information on institutional giving in response to the 9/11 attacks, see L. Renz, *Giving in the Aftermath of 9/11: 2003 Update on the Foundation and Corporate Response*, New York: Foundation Center, December 2003.
3. Percentages based on the Foundation Center's 2004 "Foundation Giving Forecast Survey." A total of 902 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: 2003 Preview*, New York: Foundation Center, 2003.
4. Between 1997 and 2002, private charitable giving from all sources—including individuals, corporations, and foundations—rose as a share of Gross Domestic Product from 1.9 percent to 2.2 percent. For additional information, see *Giving USA 2004*.
5. Based on the Foundation Center's 2004 "Foundation Giving Forecast Survey," foundation assets grew by an estimated 9 to 11 percent between 2002 and 2003. A total of 872 surveyed foundations provided estimates of changes in their 2003 assets.
6. According to the 2004 "Foundation Giving Forecast Survey," approximately 9 percent of foundations do not expect to exist in perpetuity, while 22 percent remain undecided on the issue. Roughly 69 percent do expect to exist in perpetuity.
7. 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 bear market of the early 2000s and to have gained value in the stock market recovery that began in 2003.
8. 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.

