

CHAPTER 1

The State of Foundation Giving, 2002

- Giving reaches an estimated \$29.0 billion in 2001, up \$1.4 billion
- Giving in 2002 expected to remain flat
- Over the long term, modest growth in giving appears likely

In the minds of many Americans, the mid-1990s through the start of the new millennium seemed a halcyon time. The hallmarks of that period—unprecedented economic prosperity, a surge in Internet use and rapid growth in the technology sector, falling crime rates, and an unchallenged climate of political stability and domestic well-being—were seen as the prerogatives of a hard-working nation and the world's only superpower. Now, that reality could not seem more distant or naïve. Beginning with the decline of stock prices in the technology sector in late 2000 and accelerated by the September 11, 2001, attacks on New York and Washington, DC, this country's citizens came to feel that many of the gains of the last half-decade could vanish.

In the country's nonprofit sector, this new environment initially generated fear that charitable support—from individuals, corporations, and foundations—would diminish sharply for all but those organizations directly responding to the aftermath of 9/11. Even before this tragic event occurred, however, some third sector watchers posited reductions in charitable giving, including giving by foundations. They maintained that changes in giving were directly tied to the nation's economic performance. Thus, any reduction in wealth, such as that precipitated by 2001's falling stock market and economic recession, would lead to immediate decreases in charitable support.

For nonprofit organizations that had benefited from the unprecedented rise in foundation giving over the last half-decade, these predictions were especially troubling. Between 1995 and 2000, U.S. foundations

reported five consecutive years of double-digit growth in their giving, and their overall support more than doubled during this period. As a result, foundations' share of all private giving climbed from roughly 10 percent at mid-decade to 13.5 percent at the start of the new century.¹ Beyond providing more support to a greater number of nonprofits, these vastly increased foundation resources encouraged many nonprofits to enhance their work by expanding programs and launching capital campaigns. A sudden cutback in foundation giving would consequently harm a greater number of organizations and put in doubt many of their more ambitious plans.

Despite this fear and the gloomy prognostications of some experts in the sector, giving by foundations did not fall in 2001. In fact, the nation's nearly 56,600 grantmaking foundations contributed an estimated \$29.0 billion in grants in 2001 (Figure 1), up \$1.4 billion. This 5.1 percent increase fell behind the prior year's 18.2 percent rise and represented the smallest annual gain in giving since 1994. Still, in the second consecutive year of declining stock values and amidst a recession, the increase in foundation giving outstripped inflation. Continued higher spending by many leading foundations (often fulfilling commitments made in the boom years of the late 1990s), along with exceptional giving in the aftermath of the 9/11 attacks,² helped to maintain positive growth. Newly established independent foundations also contributed to the overall increase in foundation giving.

1. See Brown, M., *Giving USA 2001: The Annual Report on Philanthropy*, New York: AAFRC Trust for Philanthropy, 2001. Figures on foundations' share of private giving include independent, corporate, community, and grant-making operating foundations.

2. In response to the 9/11 attacks, independent and community foundations pledged nearly \$195 million, of which roughly three-fifths was paid out in 2001. Corporations and corporate foundations pledged \$621.5 million, of which approximately two-thirds was paid out in 2001. (Due to combined reporting of pledges, the precise amount paid out by corporate foundations cannot be determined.) For information on institutional giving in response to 9/11, see Renz, L., *Giving in the Aftermath of 9/11: Foundations and Corporations Respond*, New York: Foundation Center, 2002.

Independent foundations showed the greatest growth in giving in 2001, relative to other types of foundations. Giving by independent foundations, including family and new health foundations, rose an estimated 5.4 percent, following an actual 18.7 percent gain in 2000. Community foundations followed, with giving up an estimated 4.6 percent in 2001, following a 17.1 percent increase in 2000. This gain represented the slowest growth in community foundation giving since 1994 and reflected the sensitivity of their individual donors to changes in the economy. (For more detailed comparisons of estimated giving by foundation type, see Chapter 4.)

Corporate foundation giving grew an estimated 2.6 percent in 2001. After inflation, support by corporate foundations slipped 0.2 percent. This year of flat giving came on the heels of a 6.1 percent increase in 2000 and a 15.0 percent rise in 1999. Slower growth in giving compared to other types of foundations reflected the vulnerability of corporate funders to reduced profits. Partially offsetting expected corporate belt-tightening was the tremendous outpouring of support by corporations and their foundations in response to the 9/11 attacks.

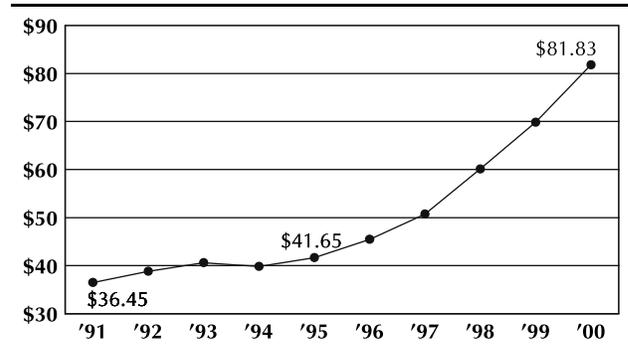
The continuing growth in foundation giving through 2001 meant that their overall support more than doubled since 1996. Even adjusted for inflation, giving by foundations almost doubled during this period. By most standard economic measures, foundations realized remarkable growth in a very short period. For example, Figure 2 shows that inflation-adjusted foundation giving per capita grew by four-fifths (80.0 percent) from \$45.47 in 1996 to \$81.83 in 2000. As

a share of Gross Domestic Product (GDP), inflation-adjusted foundation giving climbed by 46.4 percent over the same period (Figure 3).³ Driving this growth in foundation giving was the rapid increase in both the number and the assets of foundations.

The dizzying climb of the stock market and the robust health of the economy were the key factors responsible for the increased value of existing foundation assets in the latter half of the 1990s and the record amount of new gifts and bequests from donors to their foundations. The rapid rise in personal wealth

3. Between 1995 and 2000, private charitable giving from all sources—including individuals, corporations, and foundations—as a share of Gross Domestic Product rose 17.6 percent, from 1.7 percent to 2.0 percent. For additional information, see *Giving USA 2001*.

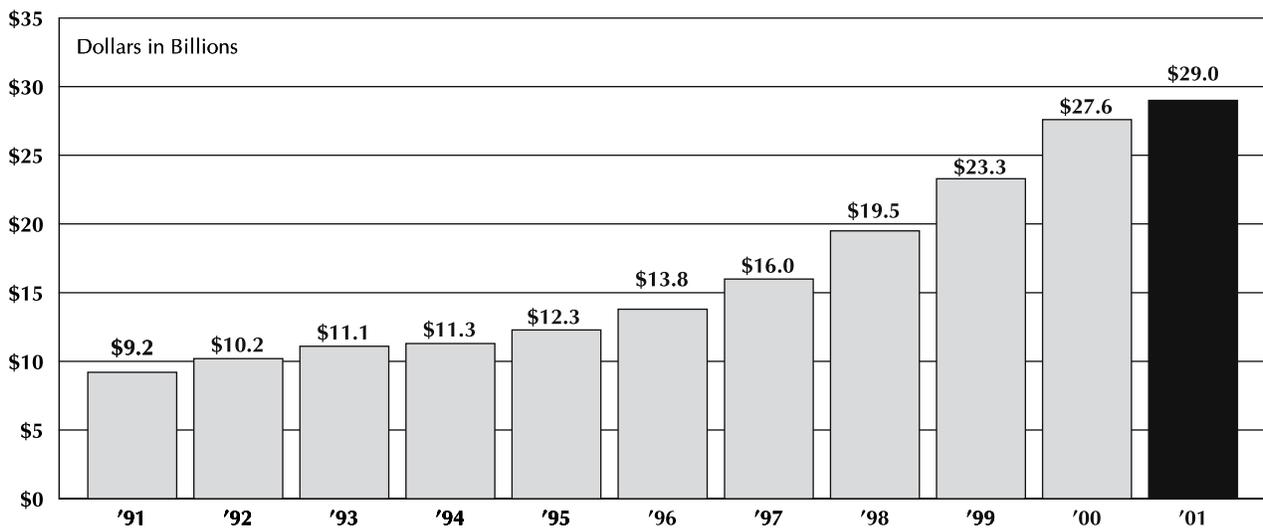
FIGURE 2. Foundation Giving Per Capita, 1991 to 2000 (Constant Dollars)*



Source: *Foundation Yearbook*, 2002.

*Constant 1991 dollars based on annual average Consumer Price Index, all urban consumers, U.S. Department of Labor, Bureau of Labor Statistics, as of March 2002. Figures on U.S. population for 2000 from *Statistical Abstracts of the United States: 2001*.

FIGURE 1. Growth of Foundation Giving 1991 to 2001*



Source: *Foundation Yearbook*, 2002.

*Figures estimated for 2000. All figures based on unadjusted dollars.

during this period also created an environment in which a record number of individuals chose to create foundations.

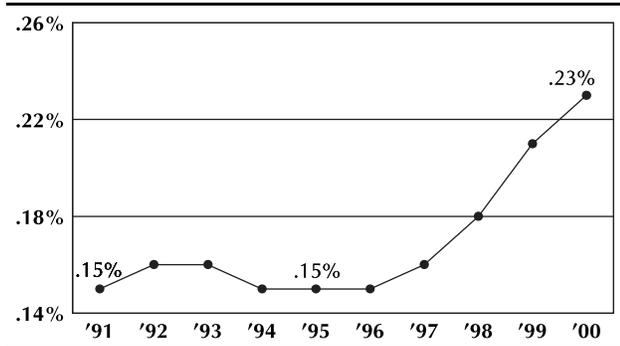
In the new reality of 2002, a weak recovery from the nation's first recession in ten years and two years of roiling instability in the stock market make a rapid return to robust economic health unlikely. Moreover, the country faces ongoing threats of terrorist activity and a loss of confidence in the business community following the Enron collapse, which could undermine

economic recovery. These factors suggest a pessimistic outlook for the growth of existing U.S. foundations and the establishment of new ones.

Yet, despite uncertainty in the current economic and political climate, several factors indicate that foundation giving will remain relatively stable in 2002. Most importantly, many foundations—including most of the nation's largest ones—hold permanent investment assets and follow long-term payout strategies. While these foundations may not increase their grant budgets during periods of depressed markets, they generally try to avoid steep reductions in giving during recessions. In contrast, individuals' personal giving usually mirrors fairly directly real or anticipated changes in their net worth.

Also helping to stabilize foundation giving in periods of economic decline is the federal payout requirement for private, non-operating foundations. By law, independent and corporate foundations must pay out each year in charitable distributions at least 5 percent of the value of their investments in the preceding year. (They may carry forward over several years payout in excess of 5 percent.) Figure 4 shows that independent foundation giving as a share of prior year's assets totaled 5.5 percent in 2001, down slightly from 5.6 percent in 2000. For corporate foundations, the share slipped from 19.6 percent to 19.3 percent. (Unlike larger independent foundations, corporate foun-

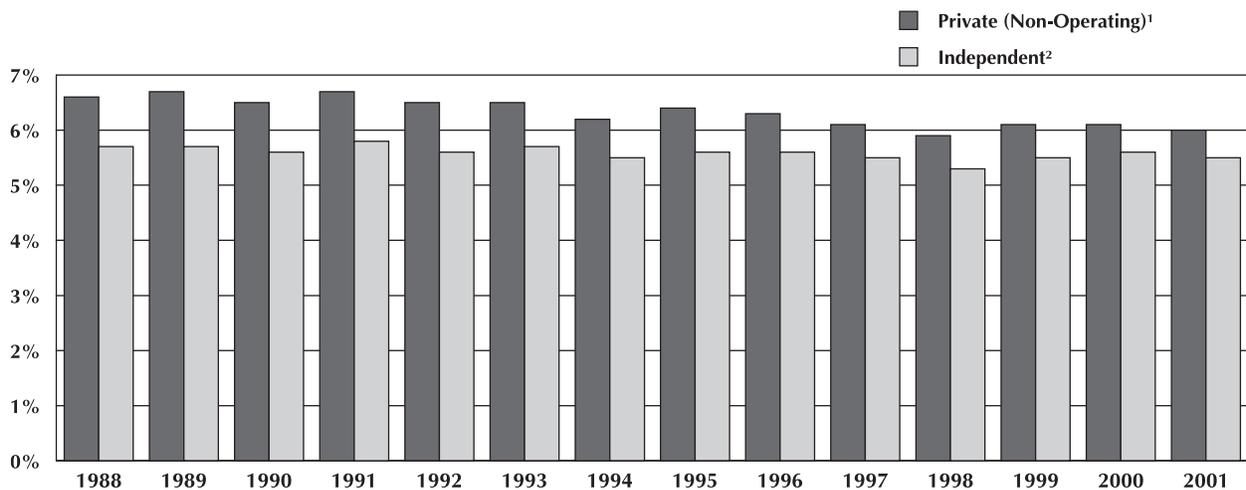
FIGURE 3. Foundation Giving as a Share of GDP, 1991 to 2000 (Constant Dollars)*



Source: *Foundation Yearbook*, 2002.

*Constant 1991 dollars based on annual average Consumer Price Index, all urban consumers, U.S. Department of Labor, Bureau of Labor Statistics, as of March 2002. Figures on 2000 U.S. Gross Domestic Product (GDP) from *Statistical Abstracts of the United States: 2001*.

FIGURE 4. Private (Non-Operating) and Independent Foundation Giving as a Share of Prior Year's Assets, 1988 to 2001*



Source: *Foundation Yearbook*, 2002.

*Giving figures for 2001 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 directory for charitable purposes. Actual payout can only be calculated for individual foundations. The ratio of total giving to prior year asset values therefore serves as only a rough proxy for payout.

dations generally do not maintain substantial endowments and instead fund grant budgets through annual gifts from their corporate donors—hence, the higher ratio of giving to prior year's assets. Nonetheless, some corporations will make additional gifts into their foundations' endowments in periods of higher earnings, which can be used to stabilize giving during periods of lower earning.) By comparison, community foundations are under no obligation to maintain mandated levels of giving during rocky economic times. Still, their giving typically amounts to between 7 percent and 8 percent of the value of their prior year's assets, with new gifts from individual donors combining with earnings on investments to fund grants budgets.

Figure 5 illustrates the changes in foundation giving in inflation-adjusted dollars since 1975 (the first year for which comprehensive information is available). During the recessions of 1980, 1981-82, and 1990-91, foundation giving in real dollars did not decline and, in fact, *increased slightly*. Still, the latest recession (unlike those in the 1980s and 1990s) has been accompanied by two straight years of stock market declines. Looking at 2002, this suggests that, although foundation giving cannot be expected to grow, it most likely will not show a pronounced reduction. In fact, among the nation's nearly 56,600 funders, giving patterns will vary. Many foundations will maintain a steady level of giving, and decreases in giving by some funders may be offset by increases among others, particularly new foundations whose grantmaking programs started up in the last few years or foundations

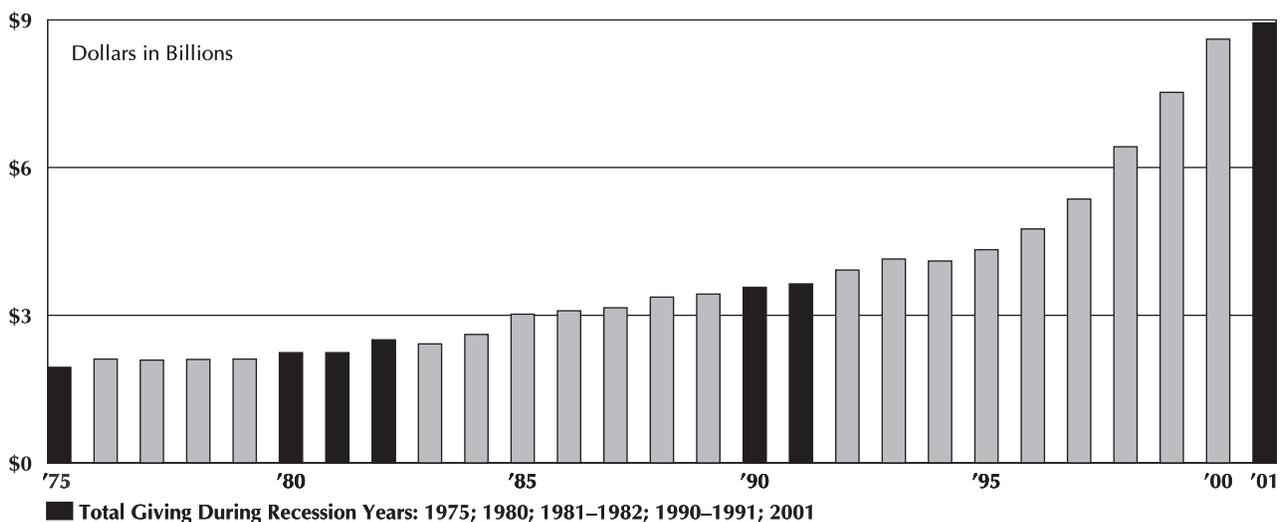
whose investments have fared well in the current environment.

The relative stability of foundation giving compared to giving by individuals or corporations means that foundations will represent an even greater share of private charitable support. Moreover, with cutbacks in government support for nonprofits, due to the recession and the reallocation of federal resources, nonprofit organizations will face even greater competition for foundation support.

Beyond 2002, the establishment of new and often very large foundations and the exceptionally large gifts and bequests still being given by donors to their existing foundations will help to ensure the short-term stability of and longer-term return to growth in foundation giving. While information on foundation creation at the end of the 1990s and into 2000 remains incomplete, the number of larger foundations established during the past decade has already exceeded the record-high birth rates witnessed in the 1980s. In 2000 alone, the number of active foundations overall increased by a record 6,400, far surpassing the prior year's record gain of 3,400. As many of these new foundations receive additional assets over the next ten to 20 years, they will contribute new resources to the nation's nonprofit community.

Among up-and-coming grantmakers is a \$5 billion family foundation established by Intel Corporation founder Gordon Moore. In 2001, the Gordon I. and Betty E. Moore Foundation made future commitments totaling over \$750 million. Ultimately, Mr. Moore expects to give most of his fortune to the foundation. On

FIGURE 5. Total Giving by Foundations, 1975 to 2001 (Constant Dollars)*



Source: *Foundation Yearbook*, 2002.

*Figures estimated for 2001. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers, U.S. Department of Labor, Bureau of Labor Statistics, as of March 2002.

a similar scale, the William and Flora Hewlett Foundation will benefit from a multi-billion-dollar bequest from the estate of William Hewlett over the next several years that could raise its assets to approximately \$7 billion, placing it among the top ten foundations by assets.

In addition, a 1998 change in federal tax policy will continue to aid the 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. After strong lobbying by foundation associations and nonprofit groups, the provision was finally made a permanent part of the tax code in 1998.⁴

The U.S. nonprofit community continues to benefit from foundation giving that in 2001 was more than double the amount it received in the mid-1990s. In fact, despite the country's first recession in ten years, a continuing stock market decline, and national uncertainty in the wake of the 9/11 terrorist attacks, foundation giving rose ahead of inflation last year. Looking ahead to 2002 and beyond, the prospects for maintaining current levels of giving appear reasonable. Yet the sluggish performance of the stock market over the past two years and the continued weak state of the economic recovery have taken a toll on foundation endowments. Barring a dramatic and sustained upturn in the nation's economic fortunes, it appears unlikely that foundations can offer more than modest increases in support in the near future.

4. 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 on wealthy individuals lower the incentive for charitable giving.

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