

Minnesota Grantmaking 2003 Outlook Report

December 2002

Background

Minnesota's more than 1,200 foundations and corporate grantmakers awarded \$810.1 million in charitable grants in 2000 (the latest year for which data is available) and held foundation assets of \$12.1 billion.

This report summarizes the results of a survey of members of the Minnesota Council on Foundations, conducted in November 2002, to assess the outlook for grantmaking activity in Minnesota in 2003. The survey results reflect responses from 71 foundations and corporate giving programs in Minnesota, representing about 60 percent of all private grant dollars in the state. Survey respondents represented grantmakers of all types and sizes, from small, trustee-managed family foundations to eight of the state's ten largest grantmaking organizations.

Summary & Analysis

Minnesota is likely to experience flat growth or a decline in total private grant dollars in 2003, and perhaps beyond, to fund the community work of Minnesota's nonprofits, according to the results of the Minnesota Council on Foundations' *Minnesota Grantmaking 2003 Outlook Report*. Most Minnesota foundations (89 percent) reported declines in their assets over the past year, with nearly half reporting drops of 15 percent or more. And more than half of the state's foundations and corporate grantmakers said they expect declines in their 2003 grant dollars.

The decreases in assets and grants are due primarily to the nation's current economic recession, which is impacting Minnesota's philanthropy in several ways. The poor performance of the stock market has resulted in a loss in the dollar value of most private foundations' assets, which are the source for their grant dollars; the weak economy has dampened corporate profits, which are the source for many companies' charitable grant dollars; and individuals' investment losses have resulted in fewer gifts to community foundations.

Grantmakers reported that they are taking a variety of measures to respond to the negative impacts of the economic recession. Some funders are reducing the size of their grants and/or the number of nonprofits they fund. Others have made some temporary changes to their grantmaking programs or are tightening their focus on their core priorities. Still others have taken more severe action, such as laying off staff or eliminating program areas.

The report's weak grantmaking outlook for 2003 comes at a time when nonprofits also are facing reductions in funding support from local, state and federal government agencies and from individual donors. Many nonprofits also are experiencing more demands for their community services from Minnesotans who are being affected by the economic recession. These factors will place growing pressures on Minnesota in 2003 to find new and innovative ways to continue maintaining and improving the health and vitality of the state with more limited resources, while ensuring that its most vulnerable citizens don't shoulder the burden.

Foundation Assets

The *2003 Outlook Report* reveals that the current economic recession has resulted in significant declines in

Chart I: Minnesota Foundation Assets

Reported changes, Dec. 2001 to Oct. 2002

	% of Respondents
20% or more decrease	29%
15 - 19% decrease	20%
10 - 14% decrease	20%
5 - 9% decrease	18%
0 - 4% decrease	2%
0 - 4% increase	9%
5 - 9% increase	0%
10 - 14% increase	0%
15 - 19% increase	2%
20% or more increase	0%

Source: Nov. 2002 Council survey of Minnesota foundations; figures do not include corporate foundations

private foundation assets in Minnesota (see Chart I). A full 89 percent of foundations in the survey reported declines in their total assets over the last year due to the slowdown in the economy, with nearly half (49 percent) reporting decreases of 15 percent or more and 29 percent reporting decreases of 20 percent or more. About 7 percent of foundations reported asset losses of 30 percent or more.

Minnesota's foundations reported larger declines in their assets this year than they did last year. In the Council's *2002 Outlook Report*, 31 percent of foundations reported asset losses of 15 percent or more, compared to 49 percent this year. By comparison, the Council's last *Giving in Minnesota* research report showed that in 2000, the state's total foundation assets increased nearly 15 percent.

Just 11 percent of foundations reported increases in their assets in 2002, with nearly all of them reporting small increases of 4 percent or less.

2003 Grants

The economic recession will have a negative impact on 2003 grantmaking activity in Minnesota, according to the survey, but to a lesser extent than it has had on foundation assets (see Chart II).

The survey shows that a majority of Minnesota grantmakers (53 percent) are anticipating decreases in their grants between 2002 and 2003; this includes grantmakers of all sizes. This figure is much lower than the 89 percent of foundations reporting declines in assets. Most of these grantmakers (32 percent) are expecting grant declines of 9 percent or less from 2002 levels.

Forty-three percent of the survey respondents expect their total grant levels to increase in 2003, but by small amounts. Most of these grantmakers (28 percent) estimate that their 2003 grants will increase by 4 percent or less from 2002 levels, and just 5 percent expect increases of 10 percent or more.

Although foundation assets are the source of a large portion of the state's grant dollars, there are several explanations for why grantmakers expect the overall decline in their grants in 2003 to be smaller than the overall decline in their assets in 2002. The primary reason is that most foundations base their future grant levels on an average of their past asset performance, typically for the past one to three years, so it may

Chart II: Minnesota Grants
Estimated changes, 2002 to 2003

	<u>% of Respondents</u>
20% or more decrease	13%
15 - 19% decrease	4%
10 - 14% decrease	4%
5 - 9% decrease	14%
0 - 4% decrease	18%
0 - 4% increase	28%
5 - 9% increase	10%
10 - 14% increase	1%
15 - 19% increase	1%
20% or more increase	3%
Don't know	3%

Source: Nov. 2002 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding

take several years for past asset declines to be fully reflected in future grant levels. This means that even if the economy were to rebound in 2003, the current poor investment performance of many foundations' asset portfolios could have a negative ripple effect on grant levels into at least 2004.

The second reason why the overall decline in grants is less severe than the decline in foundation assets is that the report's 2003 grant estimates include corporate contributions that come from company profits, not from foundation assets. Corporate grantmakers in the survey were more likely to expect increases in their 2003 grants than were private and community foundations. Several corporations represented in the survey have experienced strong profit growth in 2002, which is being reflected in their estimated increases in 2003 grants.

It is also important to note that for at least some, if not all, community foundations, the decline in their grants growth can be attributed not just to declining assets but also to a decline in gifts to their donor-advised funds. Some community foundations rely on short-term, or pass-through, gifts to their donor-advised funds for a large part of their grantmaking, and a few community foundations reported a noticeable decline in these gifts in 2002.

A handful of grantmakers are reporting large decreases in their 2003 grantmaking that are *not* due to the weak economy but to extraordinary conditions at their foundations that would have occurred regardless of economic conditions.

Impact on Grantmaking Plans & Programs

Minnesota grantmakers reported that the economic recession is impacting their grantmaking programs in a number of different ways. For those grantmakers that expect to have fewer dollars to grant in 2003, 10 percent said they will respond to the lower dollar amounts by sustaining their grant sizes but reducing the number of grant recipients, and 6 percent said they will continue to fund the same number of organizations but at some reduced grant amounts. An additional 37 percent said they will use a combination of both approaches. Nearly half of these organizations (47 percent) said they “don’t know yet” how they might change their grantmaking in response to the reductions in their grant dollars.

Survey respondents provided a number of examples of temporary changes they have made to their grantmaking programs in this weak economic environment. One grantmaker reported that it is not accepting any new grant applications at the moment; another has temporarily suspended several multi-year gifts; and another has delayed some grant payments by about three months.

The economic recession also is starting to have a more long-lasting impact on the future direction of grantmaking programs and priorities in Minnesota, but not dramatically so, according to the survey (see Chart III). Nearly one-quarter of the survey respondents (23 percent) said they expect to continue with their current giving programs and priorities with no changes. An additional 28 percent of grantmakers said that if the recession worsens and leads to changes in the communities they fund, they would most likely continue with their giving priorities but would think about ways to respond to specific circumstances.

A much smaller number of grantmakers (7 percent) reported that they would consider temporarily changing their priorities or programs to respond to the impact of the economic slowdown on the communities and people that they serve. In last year’s *2002 Outlook Report*, just 2 percent of grantmakers responded this way, perhaps indicating that a small but growing number of grantmakers are willing to consider changing their programs to respond to the weak economic conditions in the community.

Nine percent of grantmakers reported that they would consider making more permanent adjustments to their giving priorities to address long-term problems resulting from the economic slowdown. Several grantmakers offered specific examples of how they have already made some longer-term changes in their grantmaking programs, which included eliminating a focus area, cutting the program’s geographic scope and “downsizing” programs.

A few funders noted that they are maintaining their giving levels by digging deeper into their endowments or reserve funds. One foundation mentioned that its board has decided to increase the foundation’s 2003 “payout” from 5 percent to 6 percent of its assets, as a direct response to the growing community problems resulting from the economic recession.

Corporate grantmakers were more likely than private and community foundations to say that they plan to continue with their current giving priorities with no changes. Community and private foundations were more likely to report that they “don’t know yet” how they will change their priorities and programs, if at all, due to economic conditions.

Chart III: If the economic slowdown continues and leads to changes in our service communities in the next year or two, we are likely to...

	<u>% of Respondents</u>
Continue with our current giving priorities and programs	23%
Continue with our current giving priorities or programs, but think about ways to respond to some specific circumstances resulting from the economic slowdown	28%
Consider temporarily changing our giving priorities or programs in order to respond to the impact of the economic slowdown on communities and people	7%
Consider making some permanent changes in our giving priorities or programs to address long-term problems resulting from the economic slowdown	9%
We don’t know yet/No response	34%

Source: Nov. 2002 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding

Other Impacts of the Economy

When asked to describe how the weak economy has impacted them other than through changes to their grantmaking programs or priorities, funders provided a number of different responses. A few grantmakers reported that they have *not* been affected much, if at all, by the economic recession, but most survey respondents identified some specific impacts. The most commonly reported impact, mentioned by 16 percent of survey respondents, is a marked increase in the number of grant requests and/or in the requested dollar amounts that grantmakers are receiving, due at least in part to funding cuts that nonprofits are experiencing from other sources.

A few grantmakers reported that this growing demand for their resources is placing additional stresses on their staffs, boards and systems. Other funders described how they are seeing the poor economy take its toll on nonprofits, which are becoming more frus-

trated, more unstable and more deeply concerned about the future. One foundation said it is spending more time counseling grant applicants about their situations.

The second most frequently mentioned impact of the weak economy, cited by 7 percent of grantmakers, is that it has prompted funders to be more strategic in their grantmaking and to have a sharper, tighter focus on their priorities. Some grantmakers also reported giving more scrutiny and due diligence to their grant applicants.

Several grantmakers reported that they are devoting more attention to analyzing and reducing their internal costs, doing the same type of belt-tightening that they expect of their grantees. A few survey respondents reported laying off staff, and a few others said they have worked to lower their administrative expenses.

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About the Minnesota Council on Foundations

Founded in 1969, the Minnesota Council on Foundations is a regional membership association of foundations and corporate and business grantmakers that are working to improve the vitality and health of our communities. The Council's mission is to strengthen and expand philanthropy.

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