



# Minnesota Grantmaking 2004 Outlook Report

December 2003

## Key Findings

- 70 percent of Minnesota grantmakers expect to increase their grant dollars in 2004.
- 44 percent of Minnesota grantmakers expect to increase their grant dollars 0 to 4 percent from 2003 levels.
- Corporate grantmakers are more likely than private and community/public foundations to expect grant increases in 2004.
- 58 percent of Minnesota foundations report increases in their assets over the past year.
- Many funders share a deep concern over the unrealistic expectation that they “fill the gap” resulting from funding reductions by government and individual sources.

## Background

Minnesota’s 1,227 active foundations and corporate grantmakers awarded more than \$920 million in charitable grants and held foundation assets of \$11.3 billion in 2001 (the latest year for which data is available).

To assess the outlook for grantmaking activity in Minnesota in 2004, the Minnesota Council on

Foundations surveyed Minnesota foundations and corporate grantmakers in October and November 2003. This report summarizes the results of the survey. The results reflect the responses of 90 foundations and corporate giving programs in Minnesota, which represent 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 nine of the state’s ten largest grantmaking organizations. Respondents included private foundations, community/public foundations and corporate foundations and giving programs.

## Summary

With the nation’s economy showing early indications of a slow recovery at the end of 2003, Minnesota’s grantmaking outlook for 2004 shows some signs of improvement from what the Council reported a year ago. A significant majority — 70 percent — of the grantmakers surveyed said they expect to increase their 2004 grant dollars from 2003 levels, although most expect increases of no more than 4 percent (see Figure 1). In last year’s *2003 Outlook Report*, less than half of Minnesota grantmakers — 43 percent — expected any increase in charitable giving in 2003.

**Chart I: Minnesota Grants**

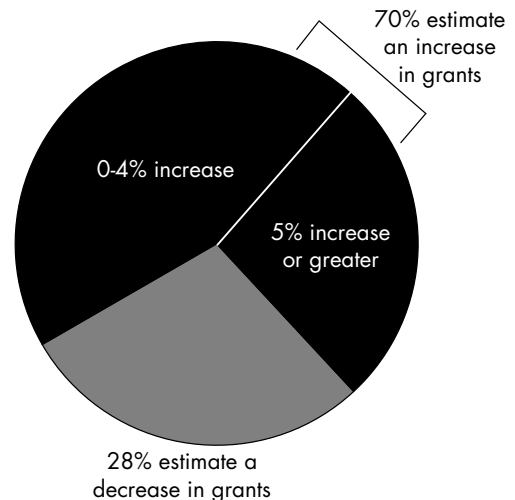
*Estimated changes, 2003 to 2004*

	<u>% of Respondents</u>
20% or more decrease	8%
15–19% decrease	3%
10–14% decrease	4%
5–9% decrease	2%
0–4% decrease	11%
<b>Total Decrease:</b>	<b>28%</b>
0–4% increase	44%
5–9% increase	10%
10–14% increase	11%
15–19% increase	2%
20% or more increase	3%
<b>Total Increase:</b>	<b>70%</b>

Source: Nov. 2003 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding.

**Figure 1: Minnesota Grants**

*Estimated changes, 2003 to 2004*



In another sign of an improving outlook, only 28 percent of those surveyed this year said they expect declines in their giving next year, compared with 53 percent that expected declines last year.

One major reason for the state's improved grantmaking outlook is the growth in the value of the state's foundation assets. More than half of Minnesota foundations — 58 percent — reported increases in their assets over the past year, which is a significant improvement from 2002, when only 11 percent of foundations reported asset gains.

Another reason for the improved financial conditions of Minnesota grantmakers is an increase in corporate profits, which are the source for most corporate grants. In addition, a number of community/public foundations report that their grants will grow in 2004 due at least in part to an increase in gifts from individual donors. Minnesota's corporate grantmakers are more likely to expect increases in their grants in 2004 than are private foundations and community/public foundations.

The economic slowdown of the past few years and related cuts in government funding have prompted many grantmakers to consider making temporary changes in the way they conduct grantmaking in 2004. While a significant number of grantmakers (41 percent) expect to continue with their current giving priorities with no changes, a larger number (46 percent) report they will likely take some measures to respond to the effects of the sluggish economy.

## Detailed Analysis

### 2004 Grants

The *2004 Outlook Report* shows that a majority of Minnesota grantmakers (70 percent) expect increases in their grant dollars between 2003 and 2004 (see Chart I). This figure is much higher than the 43 percent of grantmakers reporting increases between 2002 and 2003. However, 44 percent of grantmakers expect a modest increase in their grantmaking of less than 5 percent.

More than a quarter of grantmakers that responded to the survey (26 percent) expect grant increase of 5 percent or more next year, compared to 15 percent of grantmakers that expected similar increases last year. Just 3 percent of grantmakers expect increases of 20 percent or more, which is the same percentage as last year.

### Chart II: Minnesota Foundation Assets

Reported changes, Dec. 2002 to Oct. 2003

	<u>% of Respondents</u>
20% or more decrease . . . . .	9%
15–19% decrease . . . . .	6%
10–14% decrease . . . . .	8%
5–9% decrease . . . . .	12%
0–4% decrease . . . . .	6%
<b>Total Decrease: . . . . .</b>	<b>41%</b>
0–4% increase . . . . .	23%
5–9% increase . . . . .	19%
10–14% increase . . . . .	9%
15–19% increase . . . . .	4%
20% or more increase . . . . .	3%
<b>Total Increase: . . . . .</b>	<b>58%</b>

Source: Nov. 2003 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding.

Among the different types of grantmakers, corporate funders are most likely to expect increases in their grantmaking in 2004. Seventy-seven percent of corporate grantmakers expect to increase their grant dollars between 2003 and 2004, compared with 63 percent of private foundations and 72 percent of community/public foundations.

The main reason cited by corporate grantmakers for their improved giving outlook is a growth in corporate profits. An improving economy can sometimes be reflected more quickly in the grantmaking activity of corporate givers, where increased profits in one year can result in increased giving in the following year. For private foundations in particular, it can sometimes take several years for the full impact of an improvement in their asset investments to be reflected in increases in their grant dollars.

A small number of corporate grantmakers expect flat or small growth in their grantmaking despite a decrease in their company's profits. This can be partially explained by a gain in assets for these companies' foundations. Like private and community/public foundations, some corporate grantmakers operate a foundation that has a permanent endowment, which can help protect their grantmaking from the fluctuations in corporate performance.

Twenty-eight percent of the survey respondents expect their total grant levels to decline in 2004, which is much lower than the 53 percent of grantmakers that expected declines in their grant dollars last year.

However, of those grantmakers that expect declines in their grant dollars next year, more than half (54 percent) expect fairly large decreases of 10 percent or more.

**Foundation Assets**

More than half of Minnesota’s foundations (58 percent) that responded to the survey experienced an increase in their assets in 2003. More than one-third (35 percent) of foundations reported asset increases of 5 percent or more over the past year, while about one-quarter (23 percent) of foundations reported small asset growth of 0 to 4 percent (see Chart II). These figures represent a significant improvement over last year’s survey results, when only 11 percent of foundation respondents reported any increases in their assets. This is an indication that foundations are seeing better investment returns thanks to a rebounding stock market.

The steady gain in foundation assets reflects a recent upward trend in the financial health of Minnesota’s grantmakers. According to the Council’s most recent *Giving in Minnesota* report, published in the fall of 2003, the assets of the state’s foundations in 2001 (the latest year for which data is available) dropped 8.8 percent from the previous year in inflation-adjusted dollars, marking the first decline in the state’s total foundation assets since 1994 and the largest decline ever recorded by the Council. In the Council’s *2003 Outlook Report*, foundation assets continued to take a hit, with an overwhelming majority of respondents (89 percent) reporting decreases in 2002. By comparison, just 41 percent of foundations surveyed this year report a decline in their assets over the past year.

Only 15 percent of foundations reported asset decreases of 15 percent or more over the past year, compared with 49 percent in last year’s survey. Still, a small number of foundations (9 percent) reported asset declines of 20 percent or more in 2003.

**Impact on Grantmaking Plans & Programs**

To respond to the economic slowdown and related cuts in government funding of the past few years, grantmakers are more likely to consider responding with temporary changes rather than permanent changes to their programs and priorities, according to the survey results, and many grantmakers expect to make no changes at all.

When asked how they would respond to the economic slowdown and related cuts in government funding of the past few years, 41 percent of those surveyed said they expect to continue with their current giving programs and priorities in 2004 with no changes (see Chart III), which is up from 23 percent in last year’s survey.

However, one-third of funders (33 percent) said they might think about ways to address specific circumstances resulting from the economic slowdown and government funding cuts, compared to 28 percent in last year’s survey, and 12 percent of grantmakers said they would consider making temporary changes to their giving priorities or programs in 2004, up from 7 percent in last year’s survey. Only 1 percent of grantmakers said they would consider making permanent changes to their programs and priorities in 2004, compared to 9 percent in last year’s survey.

**Chart III: In response to the economic slowdown of the past few years, and related cuts in government funding, in 2004 we are likely to...**

	<u>% of Respondents</u>
Continue with our current giving priorities and programs with no changes . . . . .	41%
Continue with our current giving priorities or programs, but think about ways to respond to some specific circumstances resulting from the economic slowdown and/or government funding cuts . . . . .	33%
Consider making temporary changes to our giving priorities or programs in order to respond to the impact of the economic slowdown and/or government funding cuts on communities and people . . . . .	12%
Consider making permanent changes in our giving priorities or programs to address long-term problems resulting from the economic slowdown and/or government funding cuts . . . . .	1%
We don’t know yet . . . . .	12%

*Source: Nov. 2003 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding.*

Minnesota's grantmakers appear to be more certain than they were a year ago about how they will respond to the economic slowdown. In last year's *2003 Outlook Report*, more than one-third (34 percent) of the grantmakers surveyed said they "don't know yet" how they might change their grantmaking programs or priorities to respond to the weak economy, compared to just 12 percent in this year's survey.

Corporate grantmakers are slightly more likely than community/public and private foundations to continue with their current giving priorities with no changes, while private foundations are more likely to consider making targeted changes to address specific problems as well as making temporary changes to their grantmaking programs.

### **Major Issues and Concerns**

Many of the funders that responded to the survey share a deep concern over the unrealistic expectation that they "fill the gap" resulting from funding reductions by government and individual sources. Even with the recent modest improvement in the value of many foundations' assets, many grantmakers are concerned about having fewer grant dollars to give just when many nonprofits need those dollars the most.

Some grantmakers in the state are concerned that the ever-increasing number and amount of funding requests from nonprofits will far outpace their capability to respond. Grantmakers report that an increasing number of nonprofit groups are both asking for more dollars and asking more frequently, which can place serious stresses on their systems and staffs. As a way for nonprofits to respond to the current financial difficulties, a number of funders predict that there will be more nonprofit acquisitions and mergers in order to achieve greater efficiencies and synergies.

A few grantmakers noted in the survey that they are making changes to their grantmaking programs to engage in "proactive giving" aimed at preventing problems, rather than being reactive and responding to needs as they arise. A few others noted that they are transitioning to new funding priorities that may not be viewed as addressing current community needs. They do so with hesitation, with some concerned about the criticism they might face in focusing on longer-term solutions at the expense of immediate short-term needs in the communities. But at a time when the demand for funding is greater than ever, these grantmakers expressed a sense of responsibility to continue looking for new and creative solutions to maximize the impact of their limited grant dollars.

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### **Thank You**

The Minnesota Council on Foundations would like to thank all of its members who provided information for this report.

### **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.

### **Additional Copies**

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