



Minnesota Grantmaking 2005 Outlook Report

January 2005

Key Findings & Observations

- 80 percent of Minnesota grantmakers expect to increase their grant dollars in 2005, with 45 percent expecting increases of 0 to 4 percent from 2004 levels.
- 35 percent of the grantmakers surveyed expect grant increases of 5 percent or more in 2005.
- 78 percent of the state's top 25 grantmakers who responded to the Outlook survey expect to increase their grantmaking by 0 to 4 percent in 2005. Within this group, 29 percent expect to see increases of 5 percent or more. Based on these numbers, Minnesota grantmaking is expected to return to a more traditional rate of growth of 3 to 6 percent in 2005, if current economic conditions hold.
- Community/public foundations are a bit more likely than private foundations and corporate grantmakers to expect grant increases in 2005.
- 84 percent of Minnesota foundations report increases in their assets over the past year.
- While many grantmakers have experienced a rebound in asset growth, they remain concerned over the lack of funding for nonprofits from other sources due to public sector budget cuts.

Background

Minnesota's 1,277 active foundations and corporate grantmakers awarded more than \$893 million in charita-

ble grants and held foundation assets of \$11.6 billion in 2002 (the latest year for which data is available).

To assess the outlook for grantmaking activity in Minnesota in 2005, the Minnesota Council on Foundations surveyed Minnesota foundations and corporate grantmakers in December 2004. This report summarizes the results of the survey. The results reflect the responses of 84 foundations and corporate giving programs in Minnesota, which represent about 64 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. Respondents included private foundations, community/public foundations and corporate foundations and giving programs.

Summary

With the nation's economy continuing to recover in 2004, Minnesota's grantmaking outlook for 2005 shows signs of improvement for the second year in a row. A significant majority — 80 percent — of the grantmakers surveyed said they expect to increase their 2005 grant dollars from 2004 levels, compared with an already strong 70 percent a year ago. While most of these grantmakers expect grant increases of no more than 4 percent, 19 percent of funders expect increases of 5 to 9 percent, and another 16 percent expect to increase their grantmaking by 10 percent or more.

Chart I: Minnesota Grants

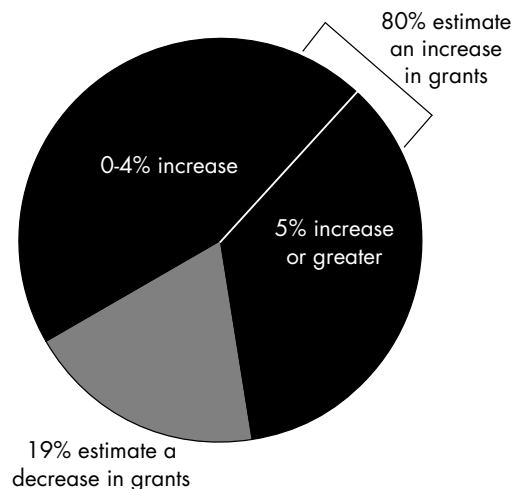
Estimated changes, 2004 to 2005

	<u>% of Respondents</u>
20% or more decrease	8%
15–19% decrease	4%
10–14% decrease	1%
5–9% decrease	1%
0–4% decrease	5%
Total Decrease:	19%
0–4% increase	45%
5–9% increase	19%
10–14% increase	6%
15–19% increase	2%
20% or more increase	8%
Total Increase:	80%

Source: Dec. 2004 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding.

Figure I: Minnesota Grants

Estimated changes, 2004 to 2005



In another sign of a brighter outlook, only 19 percent of those surveyed said they expect declines in their giving in the coming year. This is a smaller percentage than the 28 percent that expected declines a year ago, and a significant improvement from the 53 percent that expected declines in their giving in 2003.

One major reason for the state's improved grantmaking outlook is the growth in the value of the state's foundation assets. A significant majority — 84 percent — of foundations surveyed reported increases in their assets over the past year, while only 15 percent reported declines. A year ago, only 58 percent of foundations reported asset gains while 41 percent experienced a reduction in their assets. As a testament to their improved financial picture, when asked to name a reason for the estimated change in their total grant giving between 2004 and 2005, most grantmakers surveyed — 43 percent — cited an increase in the total value of their foundation's assets as the top reason for giving more in 2005.

The improved grantmaking outlook for 2005 can also be attributed to a reported increase in donations to community/public foundations, which were a bit more likely to expect grant increases in 2005 than either corporate grantmakers or private foundations. Another factor is an increase in corporate profits, which is the main source for most corporate grants. Many corporate grantmakers surveyed reported an increase in their company's "ability to support the foundation."

Nearly two-thirds of grantmakers — 65 percent — expect to continue with their giving priorities and programs in 2005 with no changes. A much smaller group — 24 percent — plan to think about ways to respond to specific circumstances resulting from the effects of an unsteady economic recovery and continued declines in government funding. Another 7 percent reported that they would be likely to take some measures to respond to the changed funding landscape, either on a temporary or permanent basis. This is down from last year's survey, when 13 percent said they would consider these changes — another sign that grantmakers are slowly regaining confidence in the overall funding picture.

Detailed Analysis

2005 Grants

The *2005 Outlook Report* shows that a majority of Minnesota grantmakers (80 percent) expect increases in their grant dollars between 2004 and 2005 (see Chart I). This figure is higher than the 70 percent of grantmakers reporting increases between 2003 and 2004, showing a steadily improving financial picture for both grantmaking organizations and the nation's economy. Of those funders who expect increased giving, almost half — 45 percent — expect a modest increase of less than 5 percent, about the same number as in last year's survey.

Chart II: Minnesota Foundation Assets

Reported changes, Dec. 2003 to Dec. 2004

	<u>% of Respondents</u>
20% or more decrease	4%
15–19% decrease	1%
10–14% decrease	0%
5–9% decrease	3%
0–4% decrease	7%
Total Asset Decrease:	15%
0–4% increase	34%
5–9% increase	26%
10–14% increase	13%
15–19% increase	4%
20% or more increase	7%
Total Asset Increase:	84%

Source: Dec. 2004 Council survey of Minnesota foundations and corporate grantmakers; figures do not equal 100% due to rounding.

More than one-third of grantmakers that responded to the survey (35 percent) expect grant increases of 5 percent or more in 2005, compared to 26 percent that expected the same level of increase last year. Eight percent of grantmakers expect increases of 20 percent or more, up from 3 percent that planned such high increases last year and another sign that more grantmakers feel they have the resources to expand their giving.

Among the different types of grantmakers, community/public foundations are most likely to expect increases in their grantmaking in 2005. Ninety percent of community/public foundations expect to increase their grant dollars between 2004 and 2005, compared with 76 percent of private foundations and 81 percent of corporate grantmakers that plan increases.

In addition to increased donations from both corporate and individual sources, another key reason for community/public foundations' strong giving outlook is a better performance by the stock market in 2004, which directly affects the investment and endowment value for these foundations. Of all community/public grantmakers surveyed, 80 percent reported an increase in their foundations' assets over the past year, compared with 56 percent that experienced asset gains in 2003.

Corporate grantmakers reported a mixed picture of their grantmaking outlook for the coming year. While 81 percent of those surveyed expect to increase their giving in 2005, half — 50 percent — expect increases of less than 5 percent. A year ago, 77 percent of corporate grantmakers expected to increase their grant dollars in the coming year. This indicates a slow but steady upward trend in the giving outlook for corporate funders, who tend to experience the effects of the economy, both positive and negative, more quickly than other types of grantmakers. A com-

paratively small number — 19 percent — of corporate grantmakers surveyed expect a decrease in their charitable giving in 2005, with just 12 percent expecting a reduction of 20 percent or more.

Private foundations are the least likely to increase their grantmaking in 2005 among the three types of funders, even though a higher percentage of private foundations experienced asset growth in 2004 than either corporate or community/public foundations. The full impact of improved market conditions can sometimes take a few years to be reflected in private foundations' grantmaking.

Just 19 percent of the survey respondents expect their total grant levels to decline in 2005. This is an improvement from the 28 percent that had the same expectation in the previous year, and a major improvement from the 53 percent that expected a grantmaking decline in 2003. However, of those grantmakers that expect decreases in their grant dollars over the next year, more than two-thirds (69 percent) expect decreases of 10 percent or more, compared with 54 percent that had the same expectation last year.

It is important to note that many grantmakers base their decisions about giving levels on factors other than the state of macroeconomic conditions. These factors include internal grantmaking policies, foundation by-laws, established formulas for determining payout, and prior grant commitments, to name a few.

Foundation Assets

A majority of Minnesota's foundations (84 percent) that held assets experienced an increase in the value of those assets in 2004. Half of these grantmakers (50 percent) reported asset gains of 5 percent or more, compared to 35 percent who experienced the same growth in 2003. About one-third — 34 percent — reported small asset growth of 0 to 4 percent (see Chart II), a significant improvement over the 23 percent that reported the same level of increase last year. Overall, these figures represent

a sustained improvement over last year's survey results, when 58 percent of foundation respondents reported increases in their assets. This is further indication that foundations are reaping the reward of a recovering economy and they continue to see better returns for their financial investment.

The continued climb in foundation assets reflects a consistent upward trend in the financial health of Minnesota's grantmakers. According to the Council's most recent *Giving in Minnesota* report, published in November 2004, the assets of the state's foundations in 2002 (the latest year for which data is available) dropped for the second year in a row in inflation-adjusted dollars, by less than 1 percent from the previous year. Between 2000 and 2001, the drop was 8 percent. In contrast, a majority of the state's grantmakers have reported increases in their assets for two consecutive Outlook Surveys (in 2003 and 2004).

The survey finds only 15 percent of foundations reporting asset declines over the past year, and a mere 5 percent reporting asset reductions of 15 percent or more, compared with 15 percent that reported decreases at the same level in 2003. Only 4 percent of foundations experienced significant decreases — 20 percent or more — compared with 9 percent last year.

Impact on Grantmaking Plans & Programs

With the nation's economy recovering, but not yet achieving a prolonged and steady growth, the grantmakers surveyed for this year's Outlook Report appear to have adopted a holding position for the direction of their grantmaking programs. A majority of the respondents plan to continue their current funding priorities and programs with no changes. For those that plan to respond to the unstable economy and related government cuts with some adjustments in their funding programs, they are more likely to consider targeted approaches to address specific circumstances rather than to make temporary or permanent changes to their giving programs, according to the survey results.

Chart III: With the economy recovering but still unstable and government funding continuing to decline, in 2005 we are likely to make the following changes to our grantmaking program:

	<u>% of Respondents</u>
Continue with our current giving priorities and programs with no changes	65%
Continue with our current giving priorities or programs, but think about ways to respond to some specific circumstances resulting from the unstable economy and/or reduced government funding	24%
Consider making temporary changes to our giving priorities or programs in order to respond to the impact of the unstable economy and/or reduced government funding	2%
Consider making permanent changes in our giving priorities or programs to address long-term problems resulting from the economic slowdown over the past few years and/or government funding cuts	5%
Don't know/not sure	4%

Source: Dec. 2004 Council survey of Minnesota foundations and corporate grantmakers.

When asked how they would respond to the recovering yet unstable economy as well as the impact of continued government funding cuts, 65 percent of those surveyed said they expect to continue with their current giving programs and priorities in 2005 with no changes (see Chart III), which is significantly higher than the 41 percent that expected to stay the course in last year's survey.

Less than a quarter of funders (24 percent) said they would think about ways to address specific circumstances resulting from the economic slowdown and government funding cuts over the past few years, compared to 33 percent in last year's survey. Only 2 percent of grantmakers said they would consider making temporary changes to their giving priorities or programs in 2005, down from 12 percent in the previous year. Just 5 percent said they would consider making permanent changes to their programs and priorities in 2005, but this is up from 1 percent in last year's survey.

The improved economy has helped restore a sense of certainty for Minnesota's grantmakers. They appear to be surer than they were a year ago about how they will respond to the lingering effects of the economic slowdown. In last year's *2004 Outlook Report*, 12 percent of the grantmakers surveyed said they either "don't know" or are "not sure" about how they might change their grantmaking programs or priorities to respond to the sluggish economy, compared to just 4 percent in this year's survey.

Major Issues and Concerns

A number of grantmakers surveyed continue to be troubled by nonprofits' growing need for private funds, with the number and amount of grant requests they receive continuing to outpace their ability to respond. For community/public foundations that rely on external donations as a source for their own funding, they expressed concerns over the tight fundraising environment and the increased competition for funds. While they understand the increasing demand for their resources and voice concerns about this reality, some funders acknowledge that their ability to respond is limited by market forces and how they affect investments and endowments.

Many grantmakers continue to share a major concern over reduced funding to nonprofits by government and individual sources. Even with the economy improving, as well as a notable growth in foundation assets, some grantmakers see no sign of improvement in declining financial assistance from the public sector. This is especially true for nonprofits in Greater Minnesota, where a lack of resources continue to place special challenges for grantseekers in rural areas. A few funders have begun to seek creative ways to stretch their limited dollars. These strategies include providing flexible dollars and incentives to nonprofits to help them restructure and form new alliances, helping grantees to be better advocates for their own missions, finding ways to address root causes rather than providing "band-aid" assistance, and look for opportunities to collaborate with other funders to leverage their limited grantmaking resources.

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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 grantmakers working to improve the vitality and health of our communities. The Council's mission is to strengthen and expand philanthropy. The Council's broad and diverse membership includes private foundations, community and other public foundations, and corporate foundations and giving programs.

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