

The Center on Philanthropy & Public Policy

PROSPECTS FOR FOUNDATION PHILANTHROPY IN LOS ANGELES DURING UNCERTAIN TIMES

A Research Brief

**The Center on Philanthropy and Public Policy
University of Southern California**

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ABOUT THE CENTER ON PHILANTHROPY AND PUBLIC POLICY

The Center on Philanthropy and Public Policy promotes more effective philanthropy and strengthens the nonprofit sector through research that informs philanthropic decision making and public policy to advance public problem solving. Using California and the West as a laboratory, the Center conducts research on philanthropy, volunteerism, and the role of the nonprofit sector in America's communities.

In order to make the research a catalyst for understanding and action, the Center encourages communication among the philanthropic, nonprofit, and policy communities. This is accomplished through a series of convenings and conversations around research findings and policy issues to help key decision makers work together more effectively to solve public problems and to identify strategies for action.

PROSPECTS FOR FOUNDATION PHILANTHROPY IN LOS ANGELES DURING UNCERTAIN TIMES

A Research Brief¹

Over the past year the philanthropic community has experienced one of the most severe downturns in decades, including the precipitous drop in endowments and the wealth of donors. Although philanthropy has been on a significant growth curve for the last thirty years, there have been recessions – the most as recent as the early part of this decade – that caused foundations and donors to pause and in some instances make adjustments. But all indications are that this period is unlike recent downturns. This has created a great deal of uncertainty among the donors and foundations, as well as those nonprofits that rely on philanthropy to meet community needs through service delivery, policy advocacy and community building.

In an effort to better understand the foundation decisions in this period of uncertainty, the Center surveyed 100 of the largest foundations in Los Angeles County to gauge what the prospects are for foundation philanthropy in 2010 and beyond, as well as to discern any changes in strategy that are occurring or are being contemplated. The results of this study are intended to help provide a more systematic assessment of foundation philanthropy to help foundations understand the context of their work, and to provide a reality check for nonprofits who depend on foundation funding.

THE SAMPLE

There are 2,412 private foundations that call Los Angeles home, with assets totaling \$39.8 billion, and total giving approaching \$2 billion in 2007. Yet, we know from previous studies that the foundation community is characterized by a high degree of concentration, with the majority of assets and giving of foundations in the region accounted for by a handful of foundations.² Thus, for this study we chose to survey the top 100 foundations, as ranked by giving in 2007.³ These 100 foundations accounted for

¹ This research is part of a larger project updating the 2002 baseline analysis of Los Angeles Foundations. The advisory committee for the project includes: Aileen Adams, Regina Birdsell, Elwood Hopkins, Jeff Kim, Alicia Lara, Alvertha Penny, Beatriz Solis, Trent Stamp, and Tara Westman.

² Ferris, James, Rachel Potter, and Michael Tuerpe, *Foundations for Los Angeles? An Analysis of the Scale, Scope and Reach of Foundation Philanthropy in Los Angeles County*, The Center on Philanthropy and Public Policy, USC, December 2005.

³ The most recent year for which there is publicly available data for a large segment of the foundation community is 2007.

79.3 percent of giving, and held 82.4 percent of the assets of all Los Angeles foundations in 2007.⁴

The survey was mailed to the foundations in early July, and follow-up calls were made in late July and early August. Twenty-four foundations completed the survey by August 20, seven weeks later, a response rate comparable to similar surveys at the national level by the Foundation Center. The responding foundations accounted for 48.1 percent of the giving and 39.7 percent of the assets of all LA foundations in 2007. Interestingly, the responding foundations tended to be the larger foundations; they were more likely to be staffed and able to respond to a survey. The response rate of the top 25 was 48 percent; and for the 50, it was 40 percent. The participating foundations account for a substantial portion of the giving (60.6 percent) and assets (48.1 percent) of the targeted sample of 100 foundations.

FISCAL OUTLOOK: 2009 AND BEYOND

Given the great uncertainty created by the tumble in the stock market in the fall of 2008 and the declining economy, of particular interest are changes in the assets and giving of foundations in the past year as well as anticipated changes in the coming years. At the time we surveyed the foundations, most of them were in the midst of their 2009 fiscal year, while some had just completed it.⁵

2009

We asked foundations what they anticipated to be the change in their giving and assets from 2008 to 2009. The majority of foundations expect a decrease (15 out of 21) in giving, with an average decline of 24 percent. Six foundations expect an increase in giving from 2008 to 2009, some significantly so due to new gifts or planned initiatives for 2009. The net impact is an average increase in giving of four percent from 2008 to 2009 for all responding foundations.

⁴ Another interesting aspect of the Top 100 sample is the relatively large number of foundations which are still receiving new gifts to their foundations. Twenty nine of the foundations are receiving gifts that amount to at least 50 percent of the foundation's giving for the year, suggesting that the foundation still has a living donor. This is likely to have an impact on the forces governing foundation decisions about grantmaking budgets, among other key decisions.

⁵ There is considerable variation in beginning-ending dates for the fiscal years of foundations. Of the 24 foundations participating in this study, 13 use the calendar year; and five end their fiscal year on June 30; the remainder are scattered at other points throughout the year. Obviously, the actual level of assets can be sensitive to the reporting period in any given year as markets fluctuate, and one would expect lags in giving depending on the formulas used to determine grantmaking budgets.

Figure 1: Expected Changes in Giving: 2008-2009

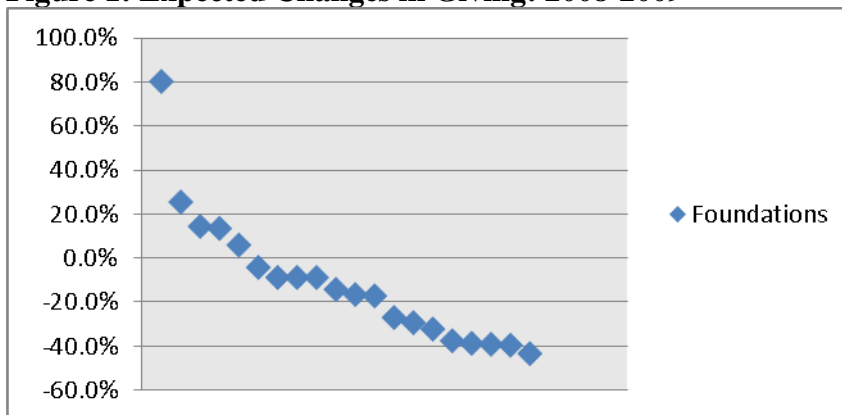
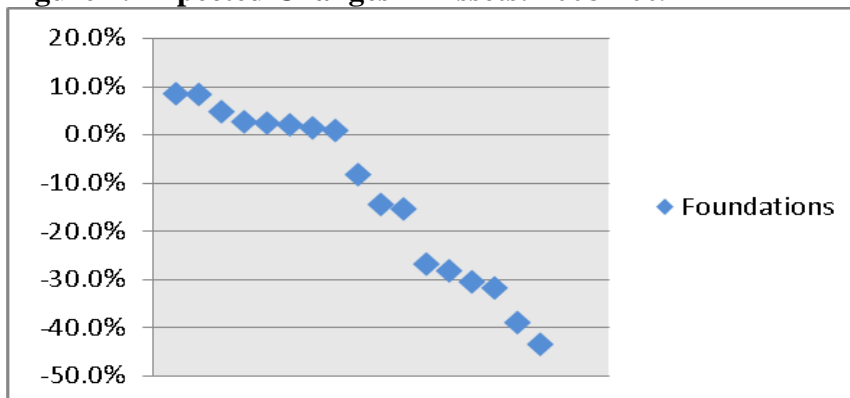


Figure 2: Expected Changes in Assets: 2008-2009



Most respondents reported (18 out of 23) that they were able to give about what they had budgeted despite the market turmoil of fall 2008, and (17 out of 23) indicate the same for 2009. This is not surprising when one considers that most of the foundations were well through their 2008 fiscal year and planning for their 2009 fiscal year when the market turned down.

We probed about how the foundations were coming up with the funds to meet their grantmaking. In addition to investment income, 15 out of 23 foundations indicated that they were reaching into their endowment principal⁶ and seven out of 23 foundations mentioned their efforts at reducing administrative costs in order to minimize reductions in their grantmaking budgets. Several of the respondents elaborated in open-ended comments that while they begin with an asset-based formula for setting grantmaking levels, they make adjustments to meet the needs of their constituents and achieve foundation priorities. Whether this will continue for 2010 is not clear.

⁶ This is 65 percent, higher than the 40 percent in an early 2009 survey of more than 1,200 foundations nationwide. See: Foundation Center. "Foundations Address the Impact of the Economic Crisis," April 2009.

Table 1: Sources for Meeting Giving Budget in 2009

Source	# Responses
Investment income	20
Discretionary funds	2
Reserve funds	2
Endowment principal	15
New gifts or bequests	1
Reduction in administrative costs	7

*Multiple responses are possible; 23 foundations responded to the question.

We were particularly interested in what factors influence a foundation's decisions about their 2009 grantmaking levels. It is clear from the responses reported in Table 3 that board and senior leadership is influential, as is the economic climate and market conditions. Interestingly, the response patterns also reveal that foundations are still focused on their strategic priorities and are committed to fulfilling their grant obligations in 2009.

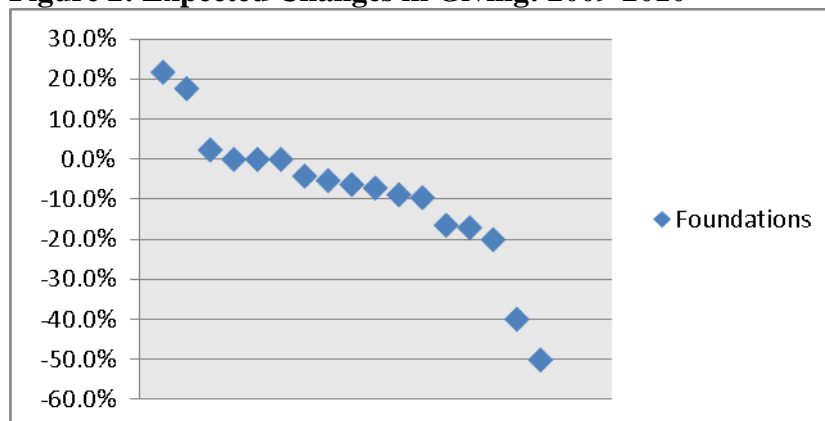
Table 2: Influential Factors in Determining 2009 Grantmaking Levels

	Very Influential	Somewhat Influential	Not at all Influential	Not Applicable	Total Responses
Board/leadership decisions	20	2	1	1	24
Economic climate/market conditions	16	7	0	1	24
California state budget	1	11	7	4	23
Foundation's strategic priorities	10	10	1	2	23
Outstanding grant obligations	11	7	3	2	23
Programmatic urgency (response to economic crisis)	7	7	7	2	23
New gifts or bequests from donors	0	1	3	19	23
Foundation spend-down policy (if applicable)	0	1	0	22	23

2010 and Beyond

Giving is expected to decrease from 2009 to 2010 by roughly 13 percent. Of the 18 foundations who responded to this question, three expect to increase giving, three expect giving to remain the same, and 12 expect giving to decrease. This decline in 2010 is consistent with the fact that many foundations (12 out of 23) adjust their giving budgets over time based on the value of their assets,⁷ and that most of the foundations that use a formula base it simply on the previous year rather than a two or three-year average as is often assumed. Of the 18 respondents for whom it was possible to calculate a change in assets between 2008 and 2009, the change was a decrease in 10 percent, with equal numbers experiencing an increase in the value of their assets and a decrease in the value of their assets. However, those experiencing decreases were of greater magnitude (percent decreases in the double digit range) than those with increases (in the single digit range).

Figure 2: Expected Changes in Giving: 2009-2010



While some of the foundations in the study are already into their 2010 fiscal year, and many of the others are in the midst of planning for it, it is clear there remains considerable uncertainty about 2011 and beyond. While four of the foundations anticipate that their grantmaking dollars for 2011 will be greater than 2010 and eight are suggesting that their grantmaking will be the same as 2010, two believe that their grantmaking will be lower. But perhaps more telling is that nine simply do not know.

⁷ Surprisingly, when we probed what kind of formula those foundations used to set their giving, only one used more than a two-year average and most simply used the value of assets in the previous year.

Table 3: Anticipated Change in Giving: 2010 – 2011

	# Responses
Higher than in the fiscal year ending in 2010	4
About the same as the fiscal year ending in 2010	8
Lower than the fiscal year ending in 2010	2
Don't know	9
Total	23

These expectations for 2011 are in part a reflection of an anticipated recovery in the value of endowments, but they also reflect a commitment on the part of several foundations to be mindful of the needs of the nonprofit partners and the communities they serve and a willingness to dip into endowment to meet their strategic goals. In a few instances they reflect the possible contributions into the endowments from living donors.

Finally, we attempted to assess the length of time that it will take to recover from the economic shock of 2008; we asked respondents how long they anticipated that it would take before they returned to their asset levels at the start of 2008. While a third of the foundations expected it to be on the order of 1-3 years, about half thought it would be 4-6 years, and about a quarter thought it would be over six years. This suggests that the impact of the economic crisis on foundations and their grantmaking is likely to be more protracted than our recent experiences with the downside of economic cycles.

Table 4: Long-Term Prospects

Return to beginning 2008 asset levels	# Responses
1-3 years	7
4-6 years	10
7-9 years	2
10+ years	3
Never	0
Total	22

GRANTMAKING PRIORITIES AND STRATEGIES

Beyond the changes to giving levels and asset values, how are foundations responding to the changing environment in terms of the grantmaking priorities and strategies? To address this, we asked foundations about changes to their grantmaking between 2008 and 2009. Despite the short time for adjustments to be made to grantmaking, there were indications of some change.

- While most foundations will maintain their current grantmaking programs in terms of areas of emphasis and geographic scope, six of the 24 foundations expected to reduce the number of program areas, and five expected to reduce the geographic scope of their grantmaking.

- In addition to the decline in overall giving as reflected in the fiscal outlook discussion, about half or more of the respondents expect to reduce the number of grantees, the number of new grantees, and the number of multi-year grants. None were anticipating increases in these areas, except for two who expect an increase in the number of new grantees.
- In terms of the type of support that foundations provide, there is an indication by eight foundations of more support for operating grants than in the past. At the same time 15 foundations indicate less support for capital grants.⁸ The impact on support for capacity building grants is more mixed, with most foundations staying the course, and those increasing this type of support being countered with an equal number decreasing this type of support.

While some of these changes reflect shifting priorities and strategies that occurred before the deterioration of the economic condition a year ago, it is clear that the current situation has forced foundations to accelerate some changes such as a move to more operating support and less capital support, or has slowed changes such as expansion or new initiatives.

Table 5: Changes in Grantmaking: 2008 – 2009

	Increase	Remain Same	Decrease	Don't Know	Total Responses
Number of program areas	0	18	6	0	24
Geographic areas served	0	18	5	0	23
Total grant dollars awarded	3	6	15	0	24
Average size of grants	1	11	11	0	23
Number of grantees	0	9	14	1	24
Number of new grantees	2	5	17	0	24
Number of multi-year grants	0	10	11	2	23
Number of grants to intermediaries or support organizations	0	11	0	10	21
Proportion of general operating grants	8	14	2	0	24
Proportion of capacity building grants	4	16	4	0	24
Proportion of capital grants	0	5	15	0	20

Beyond Grantmaking

⁸ This reflects a general trend in the region that was highlighted in the study: *Foundation Support for Nonprofit Capital Needs in Southern California*, James M. Ferris, Anne Ferree, and Minsun Park, The Center on Philanthropy and Public Policy, USC, October 2007.

Of course, foundations often make contributions to their programmatic goals beyond their grantmaking alone. Sixteen of the 24 foundations indicate they are doing so to a greater extent in the current climate. As their dollars shrink, foundations are working to make an impact through a greater degree of collaboration and/or partnerships (10), by having their staff provide more direct assistance to their grantees (9), and by using their capacity to convene (8).

Table 6: Activities in Response to Economic Downturn*

Greater engagement as response to economy	# Responses
Advocacy	5
Bridge loans/emergency financing	2
Collaborations and/or partnerships	10
Convenings of grantees	8
Technical assistance or activities provided by foundation staff to grantees	9
Technical assistance provided by consultants to grantees	4
Program-related investments (PRIs)	4

*Multiple responses are possible; 18 foundations responded to the question.

FOUNDATION OPERATIONS

Beyond adjustments in their grantmaking, foundations are also responding to the current economic predicament by making changes in their operations. As might be expected, one of the principal areas in which foundations are making changes is in staff costs. Thirteen of 21 foundations are limiting salary increases for their staff, but only three are actually reducing their staffing levels and four have hiring freezes. Nine foundations are achieving savings by limiting travel, and four are reducing professional development for their staff. Beyond internal operations, a handful of foundations have limited their communications and use of consultants.

Table 7: Current Adjustments to Administrative Costs*

Adjustment	# Responses
Reduce staff	3
Hiring freeze	4
Reduce staff total compensation (salary or benefits)	2
Limit salary increases	13
Reduce or limit travel expenses	9
Reduce staff training/professional development	4

*Multiple responses are possible; 21 foundations responded to the question.

FUTURE PROSPECTS

The collapse of the stock market and the economic downturn that has unfolded in the past year has clearly been a shock to the foundation community and has injected a considerable degree of uncertainty as we look to the future. Although this is not the first time the foundation community has been jolted, this most recent one seems more severe than those in the recent past.

During the last recession earlier this decade, a few foundations made adjustments that have served them well in this period such as not staffing back up, narrowing their scope of giving, and reducing their spend out policy gradually over a number of years. However, over half felt that whatever they did in the early part of the decade did not prepare them for this current fiscal predicament.⁹

The analysis presented in this “brief” indicates that foundations have been working to keep faith with their mission and their grantees at the same time they are striving to be prudent fiscal stewards of their foundations. While grantmaking is not expected to dip as a whole in 2009, it is due to the fact that it is difficult to make adjustments in the middle of a fiscal year and that foundations are honoring existing commitments. In addition, there are a few foundations that have received new funds that have enabled them to increase giving. The prospects for 2010 and 2011 are bleaker.

There remains considerable uncertainty about what the future holds, and there is not much optimism that asset levels will rebound for several more years. Almost a third of the foundations that we surveyed indicate that they are considering changes to their philosophy or strategy as they look to the future. For example, one respondent noted that they were returning to more responsive grants to key organizations impacted by the economic downturn, while they delay new initiatives. And another indicated they were “re-evaluating everything we do here...to expand influence, impact and efficiency.”

We are far from discerning the duration of this economic crisis, and understanding its implications for the foundation community in the region and the impact on local nonprofits and the communities they serve. The answers will continue to unfold in the coming years. We intend to continue to track the changing landscape and share our findings with the community.

⁹ Seven of the respondents indicated that they did not know, often because the respondent was not there.

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