The Center on Philanthropy & Public Policy

PROSPECTS FOR FOUNDATION PHILANTHROPY IN LOS ANGELES DURING UNCERTAIN TIMES: 2010 UPDATE

A Research Brief

The Center on Philanthropy and Public Policy
University of Southern California

November 2010

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: 2010 UPDATE

A Research Brief[1]

In fall 2008, the philanthropic community began to experience one of the most severe economic downturns in decades, including a precipitous drop in endowments and the wealth of donors. It came on the heels of a significant growth curve over the last thirty years, and continues to create a great deal of uncertainty among donors and foundations, as well as among those nonprofits that rely on philanthropy to meet community needs through service delivery, policy advocacy and community building. While there have been recessions in the past that have caused foundations and donors to pause and, in some instances, make adjustments – the most as recent as the early part of this decade – the current downturn is unlike recent ones, best evidenced by the decline in private giving from all sources for the last two years.[2]

In an effort to better understand foundation decision making during this period of uncertainty, the Center surveyed 100 of the largest foundations in Los Angeles County in the summer of 2009 to gauge the prospects for foundation philanthropy in the near term, as well as to discern any changes in strategy that occurred or were being contemplated as a result of the change in fortunes. This research brief provides an update of the findings from the earlier survey based on a survey conducted in the summer of 2010. It is intended to track changes in foundation philanthropy in the region during these unprecedented economic times.

THE SAMPLE

There are 2,360 private foundations that call Los Angeles home, with assets totaling $39.7 billion, and total giving approaching $2.3 billion in 2008. Yet, the majority of assets and giving of foundations in the region are accounted for by a handful of foundations.[3] We chose to repeat the 2010 survey for the same set of large foundations in order to provide a comparable sample to the 2009 survey. These 100 foundations

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[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, and Trent Stamp.

[2] The Giving USA Foundation, *Giving USA 2010*, Indianapolis, Indiana.

[3] James M. Ferris, Jeff Glenn, and Lia Moore, *Foundations for Los Angeles, 2007: An Analysis of the Scale, Scope and Reach of Foundation Philanthropy in Los Angeles County*,, The Center on Philanthropy and Public Policy, USC, April 2010.

accounted for 87 percent of giving, and held 82 percent of the assets of all Los Angeles foundations in 2008.[4]

The 2010 survey was mailed to the foundations in late July, and follow-up calls were made in August and early September. Twenty-five foundations completed the survey,[5] a response rate comparable to our 2009 survey, as well as to similar surveys at the national level conducted by the Foundation Center. The 25 responding foundations accounted for 34 percent of the giving and 38 percent of the assets of all LA foundations in 2008. 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 foundations was 36 percent, and of the top 50, it was 32 percent. The participating foundations account for a substantial portion of the giving (39 percent) and assets (46 percent) of the targeted sample of 100 foundations.

This year we also surveyed private and family foundations that were members of Southern California Grantmakers who were not in the Top 100 in order to gauge the extent to which trends among small and mid-size foundations reflect those of the larger foundations. For this group, we received responses from 13 of the 41 foundations that were sent the survey, a response rate of 32 percent.[6] Total giving for these foundations ranged from over $200,000 to over $4 million in 2009, with a mean of $1.1 million and a median of $878,459. Their assets ranged from $3 million to over $180 million with a mean of $34.6 million and a median of $19.5 million.

[4] Another interesting aspect of the Top 100 sample is the relatively large number of foundations which were still receiving new gifts to their foundations. In 2007, twenty nine of these foundations received gifts; they amounted to at least 50 percent of the foundation's giving for the year, suggesting that these foundations still have a living donor. This is likely to have an impact on the forces that shape foundation grantmaking budgets and other key decisions.

[5] The participating foundations are: The Agouron Institute, The Ahmanson Foundation, The Annenberg Foundation, Archstone Foundation,The California Endowment, The California Wellness Foundation, Colburn Foundation, Conrad N. Hilton Foundation, David Bohnett Foundation, The Eisner Foundation, The Herb Alpert Foundation, The James Irvine Foundation, Joseph Drown Foundation, The Kenneth T. and Eileen L. Norris Foundation, Mattel Children's Foundation, Northrop Grumman Foundation, Pfaffinger Foundation, The Ralph M. Parsons Foundation, The Seaver Institute, S. Mark Taper Foundation, UniHealth Foundation, and Weingart Foundation. Three foundations wish not to be named.

[6] The participating foundations are: Adams Family Foundation, The Atlas Family Foundation, Carl W. Johnson Foundation, The Carol and James Collins Foundation, The John Randolph and Dora Haynes Foundation, Kayne Foundation, Leonetti/O'Connell Family Foundation, Roth Family Foundation, and The SCAN Foundation. Four foundations wish not to be named.

FISCAL OUTLOOK: 2010 AND BEYOND

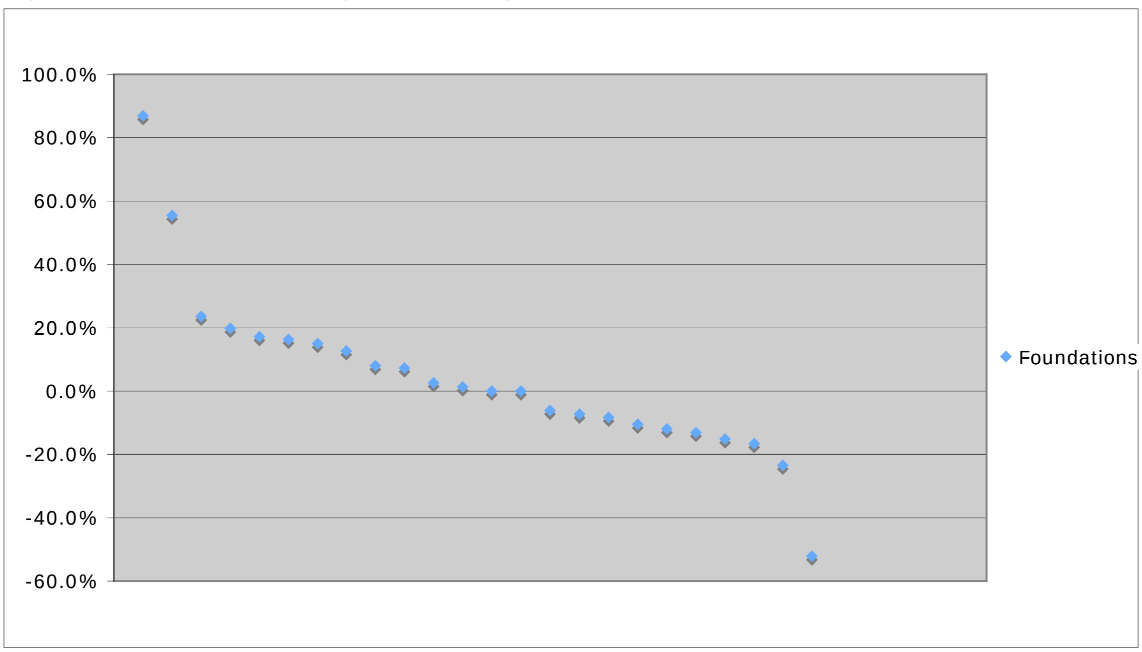
Given the great uncertainty created by the tumble in the stock market in the fall of 2008 and the stagnant economy, we were particularly interested to see how foundations assessed their prospects almost two years later. Most of the foundations were in the midst of their 2010 fiscal year when surveyed, while some had just completed it.[7]

2010

We asked foundations what changes they anticipated in their giving and assets from 2009 to 2010. Among the 25 foundations that responded, 12 expect an increase in giving, and ten expect a decrease in giving, with two anticipating no change and one uncertain. For those expecting an increase, the average was 22.1 percent, and for those expecting a decrease, the average was 17 percent. The expected change among all 25 foundations is about four percent. This is somewhat more promising than a year ago when 15 of the 21 respondents expected a decrease; and among those 15, the average decrease was 24 percent.

The small and mid-sized foundations that responded to the survey were decidedly more optimistic. Ten of the 12 anticipate an increase in giving from 2009 to 2010, with a mean increase for all 12 of about 15 percent.

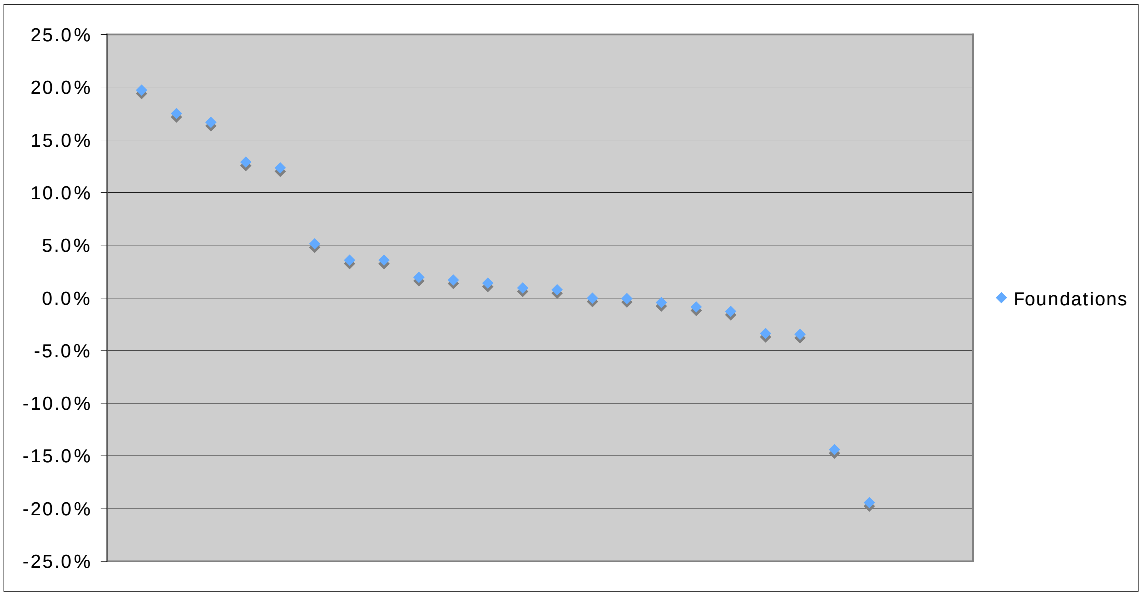
Figure 1: Expected Changes in Giving for 2009-2010, Top 100 Respondents



[7] There is considerable variation in beginning-ending dates for the fiscal years of foundations. Of the 25 foundations participating in this study, 13 use the calendar year; and six 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.

In terms of assets, for the 22 foundations in the Top 100 that responded to questions about their 2009 and 2010 asset levels, 13 anticipate an increase in assets; eight anticipate a decrease; with one expecting no change. This suggests that the decline in assets that began in 2008 is slowing, if not reversing direction. The small and mid-size foundations reflect a similar pattern.

Figure 2: Expected Changes in Assets for 2009-2010, Top 100 Respondents



We probed about how the foundations were coming up with the funds to meet their grantmaking budgets. In addition to investment income, 15 out of 25 foundations in the Top 100 indicate that they are reaching into their endowment principal, which is very similar to responses in the 2009 survey. At the same time, however, slightly fewer foundations are reducing administrative costs to help maintain their giving levels, compared to a year ago. This is likely explained by the fact that there are limits to using administrative cost savings to maintain grantmaking budgets year after year.[8]

Interestingly, though not surprising, the small and mid-sized foundations have somewhat different responses. While most rely on investment income to meet their grantmaking budgets, only two foundations are reaching into their endowments, and just two foundations are relying on administrative cost savings to fund their grantmaking. These contrasts reflect the more typical practices of small and mid-sized foundations which have few staff to begin with, and which tend in general to have higher payout rates relative to endowments.

[8] Interestingly, the patterns of specific administrative cost saving among foundations are largely unchanged from a year ago. Slightly more than half of the foundations continue to limit salary increases; over a quarter of the foundations limit travel expenses; and about a quarter limit staff training and professional development.

We were also interested to learn what factors were influential in determining 2010 grantmaking levels. Beyond the importance of board decisions, we found some subtle shifts in the relative importance of other factors. Foundation strategic priorities appear to be having somewhat of a greater impact while the impact of economic conditions and outstanding grant obligations are still influential, but somewhat less so. While there are a variety of cross-currents in these responses, it is clear that foundations, having ensured their obligations were met, are able to refocus on their strategic priorities.

Table 1: Influential Factors in Determining 2009 Grantmaking Levels, Top 100 Respondents

	Very influential		Somewhat Influential		Not at all Influential		Not Applicable		Total Responses	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Board/leadership decisions	20	17	2	6	1	0	1	0	24	23
Economic climate/market conditions	16	11	7	11	0	0	1	1	24	23
California state budget	1	2	11	6	7	12	4	2	23	22
Foundation's strategic priorities	10	16	10	6	1	1	2	0	23	23
Outstanding grant obligations	11	8	7	10	3	4	2	1	23	23
Programmatic urgency (to respond to economic crisis)	7	5	7	13	7	4	2	1	23	23

2011 and Beyond

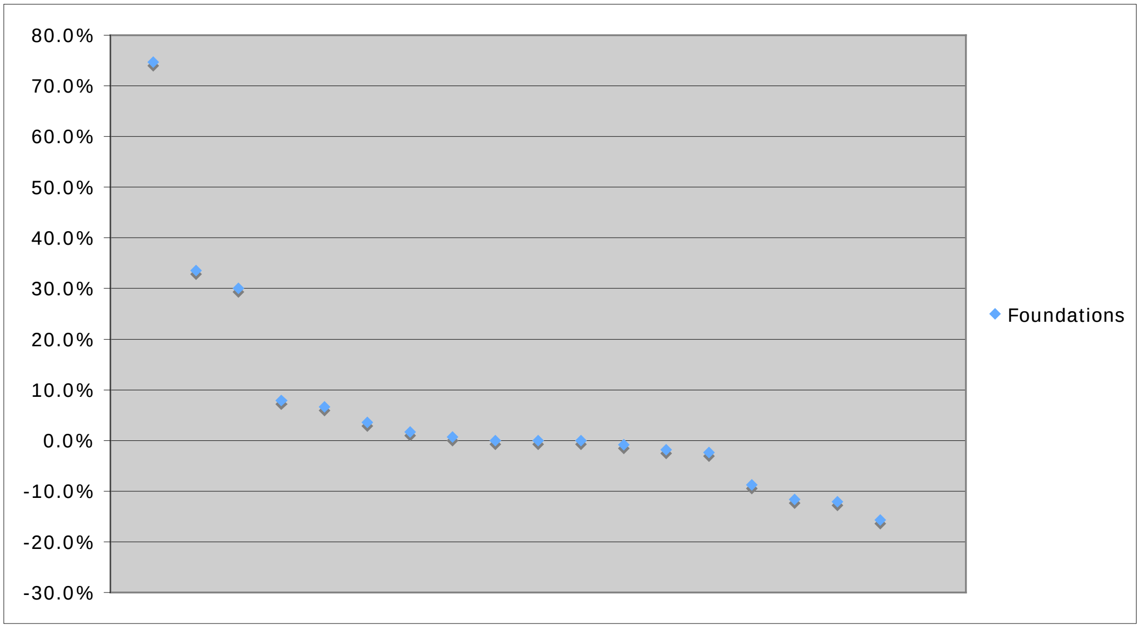
Giving is expected to increase from 2010 to 2011 by roughly six percent. Of the 18 foundations in the Top 100 that responded to this question, eight expect to increase giving, three expect giving to remain the same, and seven expect giving to decrease. The increase in 2011 is consistent with the fact that many foundations (12 out of 23) adjust their giving budgets over time based on the value of their assets, which are beginning to increase,[9] and that most of the foundations that use a formula, base it simply on the

[9] Surprisingly, when we probed what kind of formula foundations used to set their giving in the 2009 survey, only one used more than a two-year average and most simply used the value of assets in the previous year.

previous year rather than a two or three-year average as is often assumed. This allows for a quicker reversal in giving levels.

The expected increase in giving among small and mid-sized foundations from 2010 to 2011 is slightly higher. Eight of the eleven foundations expect an increase, while three expect no change. The mean expected increase is nine percent.

Figure 3: Expected Changes in Giving for 2010-2011, Top 100 Respondents



While some of the foundations in the study are already into their 2011 fiscal year, and many of the others are in the midst of planning for it, it is clear that there remains considerable uncertainty about 2012 and beyond. While six of the foundations in the Top 100 anticipate that their grantmaking dollars for 2012 will be greater than 2011, and nine are suggesting that their grantmaking will be the same as 2011, one believes that its grantmaking will be lower. But more telling is the fact that nine foundations simply do not know despite the seeming uptick in the value of assets. In terms of the small and mid-sized foundations, the patterns are not much different. Three expect an increase, five expect no change, and five are uncertain.

Table 2: Anticipated Change in Giving for 2011-2012, Top 100 Respondents

	# Responses
Higher than in the fiscal year ending in 2011	6
About the same as the fiscal year ending in 2011	9
Lower than the fiscal year ending in 2011	1
Don’t know	9
Total	25

These expectations for 2012 are a reflection of the guarded anticipation of continued recovery in the value of endowments, a commitment on the part of many foundations to be mindful of the needs of their nonprofit partners and the communities they serve, and a willingness to dip into endowments to meet their strategic goals. Additionally, in a few instances, they also reflect the possible contributions into the endowments by 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 their foundations returned to their asset levels at the start of 2008. While three among the Top 100 expect it to be on the order of 1-3 years, about a third (seven) thought that it will be 4-6 years, and about a half think that it will be more than six years. These responses indicate that despite the beginning of turnaround in asset values, there is still not a great deal of optimism for quick rebound among the larger foundations.[10] The responses from the small and mid-sized foundations are more optimistic: five expect a rebound in 1-3 years; 3 in 4-6 years, 3 in 7-10 years, and only 2 never. As we noted a year ago, 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 3: Long-Term Prospects, Top 100 Respondents

Return to beginning 2008 asset levels	**# Responses**
1-3 years	3
4-6 years	7
7-9 years	4
10+ years	3
Never	4
Total	21

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 2009 and 2010. The changes that are reflected in this year's survey for the Top 100 come on top of some interesting responses from a year ago.

- The number of program areas and geographic areas remain fairly stable. The great majority of foundations report no change in program areas or areas served. Only two foundations report an increase in the number of program areas. One foundation reports a decrease in the number of program areas and two foundations report a decrease in the number of geographic areas served. A year ago, six foundations expected to reduce the number of program areas, and five foundations expected to reduce the geographic scope of their grantmaking.

[10] The responses from the small and mid-sized foundations are more optimistic. Five expect a rebound in 1-3 years; 3 in 4-6 years, 3 in 7-10 years, and only two never.

- Reflecting the slight uptick in giving, there are a handful of foundations that report changes in grantmaking patterns, though there is no indication of a return to normal. Three foundations report an increasing number of multi-year grants, six note an increasing number of new grantees, and three expect a larger average grant size. This compares to about half or more of the respondents a year ago expecting to reduce the number of grantees, the number of new grantees, and the number of multi-year grants, with none anticipating increases in these areas, except for two that expect an increase in the number of new grantees.

- The type of support that foundations provide nonprofits was relatively stable. Unlike a year ago when there was a turn toward more operating support, most foundations were unchanged in the proportion of grants for operating support or capacity building. On the other hand, three foundations increased their allocations for capital grants while, at the same time, six decreased dollars going to capital grants.[11]

Table 4: Changes in Grantmaking from 2009-2010, Top 100 Respondents

	Increase	Remain Same	Decrease	Don't Know	Total Responses
Number of program areas	2	21	1	0	25
Geographic areas served	0	22	2	0	24
Total grant dollars awarded	10	5	8	1	24
Average size of grants	3	16	4	1	24
Number of grantees	4	14	3	2	24
Number of new grantees	6	11	5	2	24
Number of multi-year grants	3	15	5	1	24
Proportion of general operating grants	2	18	2	0	22
Proportion of capacity building grants	3	18	2	1	24
Proportion of capital grants	3	13	6	1	22

Foundations often make contributions to their programmatic goals beyond their grantmaking. Last year we discovered that there was considerable activity beyond the grant that foundations were engaged in as a result of the economy and the more limited grant resources. Once again, we see similar patterns this year. Nearly half (11) of the foundations reported engaging in collaborations and partnerships, with a focus on working to leverage funding from other funders. In addition, nine foundations focused on convening grantees; nine foundations provided technical assistance by their staff to

[11] The most interesting finding from the small and mid-sized foundation sample is that a third of the foundations are increasing the proportion of their grantmaking for general operating support.

grantees; seven foundations provided technical assistance via consultants to their grantees; and six foundations were focused on public policy. These patterns are similar for small and mid-sized foundations, with the most frequent also being collaborations and partnerships.

FUTURE PROSPECTS

The collapse of the stock market in 2008 and the subsequent economic downturn has clearly shocked the foundation community and injected a considerable degree of uncertainty about the future. The evidence to date suggests that this is not the usual twist and turn that accompanies the business cycle.

This update suggests that in the last year foundations have been able to stabilize their grantmaking as their endowments are beginning to turnaround. Foundations continue to work to keep faith with their mission and their grantees while striving to be prudent fiscal stewards of their foundations. Despite some signs of good news such as a slight increase in the number of foundations funding new grantees or providing multi-year support, foundations are sanguine about future prospects. There is a realization that a return to the asset levels of 2008 is still more than a few years away – even less optimistic than a year ago among the larger foundations.

The ultimate impacts of this severe economic recession on the region’s foundations and nonprofits and the people they serve are still far from being known, much less understood. We will continue to track the effects on philanthropy and the nonprofit sector and share our findings with the community.

The Center on Philanthropy and Public Policy
School of Policy, Planning, and Development
University of Southern California
Lewis Hall, Room 210
Los Angeles, California 90089-0626
213-740-9492
cppp@usc.edu

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