

## A Year of Slower Growth

### Foundation assets rose 4.6% in 2007, Chronicle study finds

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Assets and giving at the nation's wealthiest foundations increased in 2007, a new *Chronicle* survey finds, but the outlook for 2008 and beyond is considerably gloomier, as the slumping stock market causes the endowments of many grant makers to shrink.

At the 122 foundations that reported data for the 2006 and 2007 fiscal years, assets grew a median of 4.6 percent, well down from the median increase of 7.7 percent in last year's *Chronicle* survey.

Over all, the assets of foundations in the survey totaled \$217.9-billion in 2007, an 8.4-percent jump from 2006. The total amount distributed by the 119 foundations that reported such data in 2006 and 2007 increased from \$8.6-billion to \$10.3-billion.

The conservative investment approach taken by most foundations means they probably will not feel the full brunt of recent economic troubles.

However, they will not escape a pinch, says Joel J. Orosz, professor of philanthropic studies at Grand Valley State University, in Allendale, Mich. Stock-market fluctuations similar to those of the last few months caused asset values to rise and fall over the course of last year, but this time grant makers are worried it could be harder to rebound.

Mr. Orosz suspects that if the amount of money all foundations in the country distribute to charities increases at all in 2008, it will rise more slowly than inflation. "It's always one of those paradoxes, that as the economy goes sour and needs go up, foundation assets go down, so their payouts go down," he says.

### Uncertain Plans

Indeed, 40 foundations in the survey expected to give the same amount as they did last year, while five expect to give less. Nearly the same number — 46 — said they expect giving to rise by more than 3 percent.

In addition, 14 foundations said they had either added grant-making programs in 2007 or will cut back their giving to certain causes, often due to economic factors.

The Dyson Foundation, in Millbrook, N.Y., shut down a program designed to get pediatricians more involved in their communities. Ending it in 2007 was always the plan, but the economy

may limit the grant maker's ability to support new causes in 2008, says Michell Speight, a director of programs.

The grant maker's assets decreased 1.2 percent in 2007, to \$347.6-million. As a result, "we're being very careful in terms of what commitments we make," Ms. Speight says. "We may look at decreasing in some areas."

At some of the nation's biggest foundations, officials say that their endowments have not yet sunk to the point where they need to consider making any cutbacks.

The Robert Wood Johnson Foundation, in Princeton, N.J., the third-wealthiest foundation (behind the Bill & Melinda Gates Foundation and Ford), has no plans to cut grants, says Peggi Einhorn, the foundation's chief financial officer. But if its \$10.3-billion endowment suffers a major loss, officials might extend multiyear grants over more years than originally planned.

Steven J. McCormick, president of the Gordon and Betty Moore Foundation, in San Francisco, predicts that "if the markets decrease broadly, we will undoubtedly reduce our giving."

So far, he says, the foundation's assets remain high, at \$6.4-billion at the end of its 2007 fiscal year. But, he says, concern about the turbulence in the markets is "beginning to show up on more people's radars."

### **New Ventures**

The economic turmoil in 2008 has prompted some foundations to try new ventures in response to immediate needs.

The Kresge Foundation, in Troy, Mich., started making grants to help charities expand, develop programs, and create business plans. Rip Rapson, Kresge's president, says his foundation recognizes the "severity of the pressures under which nonprofits work," including the difficult economy, trouble attracting leaders, and an emphasis on business planning.

"Rather than trying to build a house using only a screwdriver, we're trying to add to our toolbox," he says.

In February, the Daniels Fund, in Denver, reallocated \$1-million in grants away from some of the usual groups it supports — such as those focusing on aging, disabled people, education, and substance abuse — to help food banks and social-service groups in its region.

The fund discussed increasing overall giving (it awards about \$48-million yearly) to meet those needs, but decided it was prudent not to overextend itself.

"It was a sudden decision," says Linda Childears, president of the fund. "Our board's pretty nimble, and when we need to act, we can."

The foundation is prepared to reconsider what to do next, depending on how the economy does in coming months. If unemployment continues to rise, many people will need food, fuel, and shelter, and "that's about as basic as need gets," says Ms. Childears.

The Annie E. Casey Foundation, in Baltimore, will seek to fight a cause of recent economic trouble: home foreclosures, for owners and renters. It will support homeownership counseling, says Ralph Smith, an executive vice president, with the hope of "preventing the problem in the first place and encouraging homeowners to reach out for help sooner."

He also says the foundation, which supports economic development and human services, will keep grants steady, despite what happens to its assets — just as it kept them steady during a downturn after the 2001 terrorist attack and the bursting of the dot-com bubble, when its assets shrank by more than 10 percent two years in a row.

"On the investment side of the house, they have to be more resourceful and creative," he says, "so we don't have to make draconian decisions that would affect the people we serve."

Grant seekers hope that more foundations will keep an eye on the problems grantees and the people they are serve are facing.

Aaron Dorfman, executive director of the National Committee for Responsive Philanthropy, in Washington, says nonprofit groups know foundations often come under pressure to cut back in tough times, "and nonprofits are definitely worried about this." But, he says, "it's especially important in times of recession that foundations keep finding ways of moving money out the door."

He adds that in addition to human-services groups — which will certainly face higher demand in tough economic times — advocacy groups will also need increased support this year and next as a new presidential administration with new policies comes to power.

### **Financial Strategies**

Some foundations are already taking steps to make sure they do not overreact to the ups and downs of the economy and swings in the size of their coffers.

The assets of the McCune Foundation, in Pittsburgh, swelled to \$640-million at one point last year, though they now hover at about \$500-million.

The foundation decided that instead of expanding its staff of six or adding grant programs, it would give a few sizable one-time grants.

Robert W. Lukitsch, its business manager, called this a "pressure valve" approach. He adds, "Fortunately, in Pittsburgh there's some really interesting things going on with robotics and tissue engineering, and those tend to be multimillion-dollar undertakings." (The foundation traditionally supports human services and education.)

As a result, when the foundation — which according to the will of its founder, a banker, must invest heavily in bank stock — suffered losses in the value of its endowment recently, it did not have to lay off employees or drastically reduce grants for 2008.

Steve Moore, executive director of the M.J. Murdock Charitable Trust, in Vancouver, Wash.,

says he has few worries about the economy, even though his foundation's assets rose only modestly — 2.7 percent — from 2006 to 2007.

"Short-term corrections are a distraction," he says. "That's really the advantage of taking the long view."

In fact, his foundation, which supports the arts, education, human services, and science, plans to increase grant making 43 percent in 2008 and add new programs to support coalitions that represent nonprofit organizations and to put college graduates to work as interns at charities. Both efforts, Mr. Moore noted, help the long-term sustainability of nonprofit groups, by providing a new generation of workers and supporting the infrastructure that organizations need to survive.

In addition to new efforts by existing grant makers, an infusion of wealth into a few foundations could mitigate losses in the rest of the foundation world.

James Sorenson, an inventor and investor, left a bequest worth at least \$4-billion to a personal foundation. Leona Helmsley, a hotel mogul, left most of her estate, worth between \$4-billion and \$8-billion, to a foundation, too. The will of Helen Walton, late wife of the founder of Wal-Mart, will also probably direct much of her \$16.4-billion estate to a family foundation. And another hotel mogul, Conrad Hilton, gave \$1.2-billion to the Hilton Family Foundation last December.

The Chronicle's survey found that the wealthiest foundations grew at a fast pace last year. The assets of nine of the 10 largest foundations increased, with three growing by more than 10 percent. The median gain for those foundations was 8.5 percent, meaning that half of the institutions achieved greater increases and half smaller. That percentage gain was almost double the median increase for other foundations in the survey, 4.4 percent.

The Bill & Melinda Gates Foundation, in Seattle, is still the wealthiest foundation, with \$38.9-billion in assets, a 17.7-percent jump that included \$1.7-billion from the philanthropist Warren Buffett. The foundation also gave away \$2-billion in 2007, more than the assets of all but 25 foundations in the country.

Other key survey findings:

- The Gates foundation made the year's largest grant, \$500-million to Global Fund to Fight AIDS, Tuberculosis and Malaria. Only one other grant, \$110-million from the William and Flora Hewlett Foundation, in Menlo Park, Calif., to the University of California at Berkeley, reached nine figures.
- Of 36 grants larger than \$5-million in 2007, seven went to art museums and eight to universities. One grant, \$50.3-million from the Ave Maria Foundation, in Ann Arbor, Mich., to build Ave Maria College, in Naples, Fla., represented 48 percent of the foundation's 2007 assets. The foundation was created by Tom Monaghan, who founded Domino's Pizza and is a noted Catholic philanthropist.
- Of the grant makers surveyed, 57 percent reported that they compensate their board members, the same percentage as in 2007. While the median asset size for all foundations was

\$614.1-million, the median asset size for grant makers that pay board members was \$765.4-million.

### **Beyond Cash Grants**

In addition to cash, 48 foundations in The Chronicle's survey said they provide other types of support to nonprofit groups. Such help, grant makers say, can determine whether grantees succeed or spend money wisely — a concern for many foundations amid increasing public scrutiny.

The Omidyar Network, in Redwood City, Calif., provides such support, and officials often sit on the boards of Omidyar's grantees.

In addition, the network — created by Pierre Omidyar, founder of the auction Web site eBay, and his wife, Pam — uses its technology expertise to help small charities expand. "Our sweet spot is really finding an organization when they're at that cusp of scale, really helping them to take it to the next level," says Dena Jones Trujillo, an Omidyar investment manager.

The foundation provided flexible grants and technology support to Kaboom, a youth group in Washington that builds playgrounds in cities across the country, after Kaboom became inundated with requests for aid. The charity now makes its information available online, so that outside groups can adopt Kaboom's methods. Omidyar helped the charity make its information more accessible, which made the group more visible, too.

Many foundations also help charities make professional connections — or even help groups better connect employees to their missions. That's the case at the Samuel Roberts Noble Foundation. It specializes in agricultural research, and spent so much money building new laboratories on its campus that it decided to decrease its grant making from more than \$20-million a decade ago to \$12-million in 2007.

But the Noble foundation learned how to use its handsome campus, in remote Ardmore, Okla., to help outside groups, says Donna K. Windel, director of granting. Nonprofit groups often hold meetings there because "it's comfortable and they like the privacy," she says. Other groups, especially those unclear on their strategy, come for a weekend to talk through their missions.

The foundation also sends horticulturalists out to consult with local groups and hosts seminars on raising money. "If we can help them be more professional with their fund raising," says Ms. Windel, "that comes back to help us 10 times over."

A growing number of foundations are trying to complement their grant making by earmarking a portion of their investments for businesses whose work dovetails with their missions.

The Lumina Foundation for Education, in Indianapolis, plans to invest some of its assets in businesses that support its goal of increasing the number of poor and minority youngsters who attend college.

Jamie P. Merisotis, who took over as president in January after 14 years at the Institute for Higher Education Policy, a think tank, says it would consider buying stock in a software

company that makes educational products for poor people, or a for-profit university that serves needy students.

Mr. Merisotis says he's also eager to use the power of ideas and his "bully pulpit" to push for efforts that will help such students. He has traveled to Miami, San Diego, and Toronto speak to higher-education policy experts and minority groups, and says he will continue "using our resources to convene people, to bring policy and business people together. We're prohibited from [political] lobbying, but we can use our position for arguing for increasing investment in students." Over all, he says, "It means not simply having a passive role" and relying on grants alone to achieve the foundation's mission.

However, regardless of what extra help they can provide, foundation officials say that monetary support is still the best way they can help grantees.

Any downturn, says Peter C. Hutchinson, president of the Bush Foundation, in St. Paul, "is going to affect our assets for sure."

But he says his foundation will not cut services to communities it serves in Minnesota, North Dakota, and South Dakota.

"If you look at our assets over the past years, it looks like a roller coaster, and our grant-making looked like a roller coaster," he says. However, "we think it's wrong to expect the community to bear the brunt of our financial risks. Heck, we're the ones who have the financial resources."

*Noelle Barton, Maria Di Mento, Audrey Hill, Candie Jones, and Caroline Preston contributed to this article.*

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