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THIS WEEK'S ISSUE



January 4, 2010

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Foundations' grantmaking abilities in vise

Endowments stabilizing, but lower values still stifle organizations' capacity to give

By SHANNON MORTLAND

4:30 am, January 4, 2010



Denise San Antonio Zeman, president of Saint Luke's Foundation, said the organization still faces challenges despite more stabilizing endowment levels.

Photo credit: FILE PHOTO/MARC GOLUB

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A recovering stock market has helped the endowments of local foundations regain some of their pre-recession worth, but the grantmaking capacity of many foundations likely will remain impaired for at least the next couple years as they have less money available to disperse than before the economy went into a tailspin.

Charitable foundations saw their endowment values drop in the range of 20% to 45% as the economy sank in late 2008 and early 2009 and their investment portfolios tanked. While some of that value was recouped in last year's second half as the stock market improved, foundations' portfolios continue to have plenty of lost ground to make up.

"We're still not close to our high watermark" of \$250 million in 2007, said Denise San Antonio Zeman, president of Saint Luke's Foundation. "We are still going to be challenged this year."

The Saint Luke's Foundation's endowment as of Dec. 9, 2009, was about \$171 million, which is down more than 30% from its high point but is nearly 14% above its \$150.2 million value at the end of 2008.

Likewise, the Cleveland Foundation saw its endowment rebound to \$1.8 billion by the end of October. That's a significant increase from its slide to \$1.6 billion at the end of 2008, but still is not nearly as high as its year-end 2007 value of \$2.2 billion, said J.T. Mullen, the foundation's senior vice president and chief financial officer.

Such a swift recovery in 2009 was welcome — and even surprising — but economic advisers doubt the stock market will continue to grow at a similar pace in 2010, said John Petures, president and CEO of the Akron Community Foundation. Mr. Mullen agrees.

"We've gotten partially on our way back," he said. "The question is, how long will it take to fully recover to the level at our high point?"

The answer could be, "A long time."

George Espy, president of the Ohio Grantmakers Forum, suspects it will take another three or four years to reach those high watermarks again. In an August survey conducted by the forum, 82% of Ohio's grantmaking organizations said they experienced a decline in their endowments from a year earlier, and they didn't expect the ride back up to be easy.


"Most people expected, when the recovery came, it would not be as rapid a recovery as the decline," Mr. Espy said.

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And a slow recovery probably will constrain the ability of foundations to ramp up grantmaking anytime soon, to the chagrin of grant recipients.

Not-so-great expectations

That's because most foundations base the amount of money they provide in grants on the value of their endowments over the last 12 quarters.

Because four high-performing quarters for their investments are now dropping out of the calculation only to be replaced by some of the worst-performing quarters on record, most foundations will be left with less money to dole out to charitable causes over the next two years, said Ms. San Antonio Zeman of the Saint Luke's Foundation.

In addition, foundations expect donations from individuals to be smaller as people wait for their own net worth to recover.

The Cleveland Foundation in 2008 had one of its best years for donations, as it raised \$71 million. This year, however, it had brought in only \$25 million to \$30 million in donations through Sept. 30, and doesn't expect to approach the 2008 figure, Mr. Mullen said.

Foundations are adjusting to their diminished resources in a variety of ways. The Burton D. Morgan Foundation in Hudson likely won't be able to fund much more in the next two years than the long-term commitments it already has made, said Deborah Hoover, the foundation's president.

Ms. Hoover said the Morgan Foundation in 2010 will take only 5% out of its endowment, which sank to \$103 million in 2008 after reaching \$160 million in 2007. It since has recovered to \$120 million, she said.

Grantmaking priorities have been set for the first time in the history of the Akron Community Foundation, which saw its endowment assets decline to \$100 million early in 2009 from a high of \$138.6 million in March 2008. As of Oct. 31, the endowment had risen to \$122 million.

Its CEO, Mr. Petures, said the foundation will fund early education and childhood enrichment programs, basic human needs, and services related to dealing with neglect and abuse linked to the economic downturn, Mr. Petures said. The foundation will not accept grant applications for projects outside those focus areas.

Tightening their belts

Foundations also are working to live within their reduced means.

Ms. San Antonio Zeman said the Saint Luke's Foundation has slashed its overhead by freezing salaries, reducing work hours and cutting travel and staff development. Efforts such as installing efficient light bulbs and adjusting the thermostat have reduced the amount of energy used and saved the organization money, she said.

"We couldn't just have business as usual as (the charitable foundations we support) struggle to keep their doors open," she said. "We need to share some of that pain with our nonprofits."

The Saint Luke's Foundation hopes to help some charities survive by using 6% of its endowment for grants in 2010, Ms. San Antonio Zeman said. The foundation typically uses 5% of its endowment each year for grants, but in 2009 boosted that figure to 7%, she said.

Her organization also is going down two investment roads that have been well-traveled by other foundations but not by Saint Luke's. The foundation in 2010 will make program-related investments and mission-related investments, she said.

About \$600,000 is set aside for program-related investments, which will provide long-term, low-interest loans to local organizations embarking on projects that fit the Saint Luke's mold, Ms. San Antonio Zeman said.


Another \$500,000 has been earmarked for mission-related investments, under which the foundation will provide money to local "financial vehicles" that would invest in the kind of work Saint Luke's typically supports, she said. An example would be Cleveland's venture capital firm Early Stage Partners, she said.

The foundation hopes to make money off its investments while spurring the local economy, Ms. San Antonio Zeman said.

The Cleveland Foundation expects to provide about the same amount or slightly less in grants in 2010 as in 2009, but spending policies might need to be amended mid-year depending on how the endowment fares, Mr. Mullen said.

"The next two quarters are going to be very important to us," he said.



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