

Foundation Establishment

Overview through 2004

- **Foundation community grew 2 percent in latest year**
- **Number of grantmaking foundations increased by roughly 1,300**
- **Nearly 68,000 active grantmaking foundations reported**

According to the Foundation Center's latest census, there are now 67,736 grantmaking foundations in the U.S.¹ This figure included 60,031 independent foundations (including family foundations), 2,596 corporate foundations, 700 community foundations, and 4,409 grantmaking operating foundations.

Between 2003 and 2004, the foundation community expanded by 1,338 funders, growing from 66,398 to 67,736. This 2 percent rise represented the slowest rate of increase since 1990. The rate of growth has slowed steadily since 2000, when the number of foundations increased by 12.7 percent, the largest increase reported by the Foundation Center since tracking of all U.S. foundations began in 1975.

Foundation Creation Before 1970

- **Modern foundations date back to early 1900s**
- **Foundations established in 1940s and 1950s hold a disproportionately large share of assets**

To put recent formation in context, we must look back over a century of development. The concept of private foundations as they exist today dates back to the beginning of the 1900s when the first general purpose or "modern" foundations were created by wealthy individuals, including the Russell Sage Foundation (1907), Carnegie Corporation of New York (1911), and Rockefeller Foundation (1913).

The first community fund, the Cleveland Foundation, was established in 1914, and by 1930 another 37 larger trusts still active today had been formed. Although corporations were not allowed federal tax deductions for charitable

contributions until 1936, a few corporate foundations, such as the Dayton Hudson Foundation² (1918) and the Belk Foundation (1928), were formed in these early years as well.

About one in eight (13 percent) of the giant foundations of today—those with assets of \$100 million or over—were established before 1940. Still, the overall number of foundations was quite small. It was only after World War II that the foundation movement experienced explosive growth, attributed to societal needs that surfaced in the wake of the war, the emergence of corporate foundations, a new emphasis on family foundations with living donors, and the very high income tax rates then in effect.

The rate of foundation creation more than doubled in the 1940s and grew nearly as fast in the 1950s, the highest growth rates of any period. These decades also produced a disproportionate share of the very largest endowed foundations. Of the 21,997 larger foundations still active today, close to one in nine (2,471) were created in the 1940s and 1950s, and these foundations hold roughly one-quarter (\$118.3 billion) of the combined assets of larger foundations. Moreover, of the 607 active foundations with assets of at least \$100 million, almost about three-tenths (30.1 percent) were created in the 1940s and 1950s.

In the 1960s, the rate of increase in foundations dropped to 59 percent. Still, more than 1,700 foundations, or 8 percent, of the larger foundations still active today were formed in this period.

Formation may also be measured in absolute numbers, by averaging the number of births per year. From that perspective, creation climbed from 72 a year in the 1940s to 175 in the 1950s, and increased slightly to 177 a year in the 1960s.

Foundation Creation in the 1970s

- **Establishment rate fell after 1969 Tax Act**

Following the flurry of activity from the 1940s through the 1960s, foundation creation dropped in the 1970s. Although 1,080 new larger foundations

were formed, the increase in the birthrate dipped to roughly 23 percent. In terms of absolute numbers, creation declined to just 108 a year, down nearly two-fifths (38.4 percent) from the 1960s.

The sharp fall in the birth rate followed the passage of the 1969 Tax Act. The new legislation introduced stringent regulations on private foundations that some in the field considered excessively burdensome, accorded less favorable tax treatment to donors to private foundations, and imposed annual payout requirements and a four percent excise tax. Regulation, and the generally hostile climate that surrounded it, resulted in a chilling effect on new formation, especially for independent and family foundations. Questions about the favorability of corporate direct giving programs over company foundations and a weak economy also contributed to the overall downturn.

Foundation Creation in the 1980s and 1990s

- ***Number of grantmaking foundations more than doubled over two decades***

At the start of the 1980s, the foundation population totaled roughly 22,000 and was shrinking. Foundation decline was of paramount concern to the philanthropic community, which responded with efforts to improve the regulatory environment, attract new philanthropists, and expand organized philanthropy. By the mid-1980s, a period favored by vibrant economic growth and new wealth creation, the Foundation Center was able to report substantial evidence of renewed foundation growth and vitality.

In terms of overall numbers, the foundation population more than doubled between 1980 and 1999, from 22,088 to 50,201. Growth began slowly and then accelerated in the mid-1980s. Between 1980 and 1989, roughly 9,900 foundations were added to the Center's database, most of them independent foundations. Between 1987 (when the Foundation Center initiated comprehensive coding of all private foundations according to type) and 1999, the number of independent foundations jumped by 19,730 (up 78.6 percent) and the number of corporate foundations increased by 724 (up 55.9 percent).

Comprehensive tracking of community foundations and grantmaking operating foundations started earlier, in 1977 and 1981, respectively. At the end of the 1990s, the number of community foundations had tripled, from 170 in 1977 to 519 in 1999.³ Between 1981 and 1999, the number of grantmaking operating foundations experienced tremendous growth, from fewer than 500 to more than 2,800.⁴

Foundation Creation Since 1999

The economic and stock market boom of the late 1990s continued to propel rapid increases in the number of grantmaking foundations in the first years of the new decade.

Overall, the number of foundations rose 12.7 percent between 1999 and 2000—the highest annual growth on record, from 50,201 to 56,582. The rate of increase moderated to 9.2 percent in 2001, but was still high by historical standards. Since 2001, however, foundation growth has continued to slow, dropping to 2 percent in 2004—the slowest rate of growth since 1990. Nonetheless, between 1999 and 2004, the number of foundations increased by 17,535—exceeding the entire gain in number of foundations recorded for the 1980s.

Overall growth in foundation numbers after 1979 has resulted primarily from the creation of new foundations. Other factors include:

- Fewer terminations since 1984, with the termination rate hovering around 1 percent. In the most recent year, 777 foundations (1.2 percent) ceased operation or merged into other foundations. However, an additional 285 were presumed inactive or in the process of ceasing operations.
- An increase of close to 4,000 operating foundations (both new and established) actively awarding grants, as noted above.
- More accurate data gathering on smaller foundations by the Foundation Center, achieved by examining the IRS Form 990-PF of every reporting foundation.
- The addition on a one-time basis of more than 2,100 non-exempt charitable trusts (NECTs) into the IRS file due to a filing requirement that took effect in the mid-1980s. (Most

private foundation NECTs fall into the category of the smallest foundations with assets of less than \$1 million or awarding grants totaling less than \$100,000.)

While precise birth year data are not known for all 67,736 active grantmaking foundations, intensive research by Center staff in the past decade has identified over 45,000 foundations—large and small—created after 1979. In the latest year, nearly 2,300 recently established foundations were added to the 2006 edition of the *Guide to U.S. Foundations*.

Larger Foundation Creation

- **Over two-fifths of larger foundations formed in 1990s**

As a result of ongoing research since the 1960s for *The Foundation Directory*, the Foundation Center can precisely identify and compare formation periods of the larger foundations—the close to 22,000 grantmakers reporting assets of \$1 million or over or giving of at least \$100,000 in 2004. Of these larger foundations, 3,976 (18.1 percent) were created in the 1980s, more than three and one-half times the number formed in the 1970s. An even greater 8,219 foundations—close to two-fifths of larger foundations (37.4 percent)—were formed in the 1990s. Taken together, the number of larger-size foundations established in the 1980s and 1990s now comprises the majority (nearly 60 percent) of all larger active foundations. In addition, while data remain incomplete, the Foundation Center has already tracked the creation of close to 2,700 new larger and mid-size foundations in 2000 through 2004, 18 of which have assets of \$100 million or more.

This dramatic resurgence in foundation growth is based on absolute numbers of larger new foundations. From the perspective of rate of new creation, the news is upbeat but not as striking. Foundation births grew nearly 68 percent in the 1980s, three times faster than in the 1970s, but still far below the record rates of increase in the 1950s and 1940s. Still, the formation rate for the 1990s has exceeded the rate for the 1980s.

Larger Foundation Formation from 1970 through 1999

Only 71 foundations active today with assets of at least \$1 million or paying out \$100,000 in grants were created in 1970. Annual creation numbers had more than doubled by 1979, more than tripled by 1981, increased more than five times by 1984, and were over 11 times greater in 1986, when a then record 809 mid-size and larger foundations were created. In just two years—1985 and 1986—1,270 new larger foundations were formed, more than the number created throughout the 1970s.

After spiking in 1986, new creation dropped sharply in the next two years. Yet, by the end of the 1980s, the number of new foundations created annually had surpassed pre-1986 levels. For most of the 1990s, formation was steady or increasing. In 1997, in anticipation of the expiration of a federal tax law provision, formation soared to 1,441, the largest number created in any year.⁵

What explains fluctuations in growth trends in the 1980s and 1990s? Possible explanations include changes in income tax policy, economic conditions, and wealth accumulation (cited earlier). Formation of foundations spiked in 1986 as wealthy individuals responded to greater incentives for giving. Lower personal income tax rates enacted by the Tax Reform Act of 1986 led to a decline in the growth of overall charitable contributions and created a disincentive for establishing foundations. One year later, the stock market tumbled, ending an era of then unprecedented accumulation of wealth and ushering in a period of instability in the financial markets. The economy faltered and then moved into a painful recession, which for many areas of the country lingered into 1992. After a period of uncertainty, the mid-1990s restored the blessings of a robust economy, extremely low inflation, and a roaring stock market. These conditions continued unabated throughout the late 1990s.

Birth Rates Per Year for Larger Foundations by Type

Measuring larger foundation births per year, the mean number created annually between 1980 and 1989 was 398, more than double the 175 created annually in the high growth period of the

1950s. For independent foundations, the number created per year in the 1980s (344) was more than double the number of births per year in the 1950s and close to four times greater than the number of births per year in the 1970s. An analysis of recent data indicates that independent foundations were being formed at an even higher rate in the 1990s—about 726 a year.

Corporations were also active in the 1980s and formed foundations at the rate of 31 per year that decade, higher than the number formed in the 1950s and more than triple the number created in the 1970s. The increase in births, however, was overshadowed by terminations caused by company mergers and buyouts and by a downturn in profits for many of the corporate giants. Despite sweeping changes in corporate America in the late 1980s, recent data show that companies are continuing to form foundations. Through 1999, 45 corporate foundations were formed a year, up from the 1980s.

The development of community foundations, free from the more punitive tax and regulatory burdens imposed on private foundations, has differed dramatically from that of private foundations over the last few decades. While many of the very largest community foundations were established early in the century, the formation rate did not accelerate appreciably until the 1970s, when 81 community trusts, currently holding assets of \$1 million or more or making grants of at least \$100,000, were established. Development continued at a rapid rate in the 1980s, with support from the Council on Foundations, regional associations of grantmakers, and several of the largest private foundations. In all, 129 larger community foundations were formed in the 1980s—or 13 per year. This record volume of establishment was surpassed in the 1990s, with 203 larger community foundations established, or 20 foundations per year.

Total Assets of Larger 1980s and 1990s Foundations

While more than half of all larger foundations were formed in the 1980s and 1990s, these newer foundations held just over one-third (34.3 percent) of the total wealth of larger foundations, representing \$163.6 billion in assets. The proportionately lower asset share, however, seems consistent with established patterns of

foundation development. A study has shown that the largest independent foundations received their primary endowments about 18 years after creation, following the death of the principal founder and his/her spouse.⁶ The assets of these newer foundations have seen rapid increases and helped to stabilize asset values overall during the early years of the recent downturn. However, in 2002, the larger 1980s and 90s foundations succumbed to the economic recession. Combined asset values of these foundations declined by \$16.6 billion (9.6 percent) in that year and pushed the overall drop in larger foundation assets from 8.5 percent to 8.9 percent. With a more favorable economic climate in 2003 and 2004, asset values of the larger 1980s and 90s have begun to recover. Overall, their assets increased by \$14.5 billion, or 9.7 percent, in the latest year.

Larger 1980s and 1990s Foundations by Assets and Giving

Of the roughly 12,200 currently active larger foundations formed in the 1980s and 1990s, a substantial majority are quite small—nearly two out of the three (66.1 percent) have assets under \$5 million. Yet, in a relatively few years, this period of foundation creation produced a number of very large foundations: 956 have assets over \$25 million, and of those, 179 reported assets of \$100 million or more. Those newer foundations with at least \$100 million in assets represented nearly three-tenths (29.5 percent) of the 607 foundations in that top size range.

Eighty foundations with assets of \$130 million or more were formed since 1990. These include four corporate, five operating, and five community foundations. The vast majority, however, are independent foundations (including family and new health foundations). Seventeen are located in California, including three of the top ten newer foundations by assets, led by the Gordon and Betty Moore Foundation. Ten are found in New York, including the fourth-ranked Doris Duke Charitable Foundation. By comparison, only three Washington State foundations are represented in the list, including the top-ranked Bill & Melinda Gates Foundation.

Among the 92 foundations created since 1990 that made grants of \$10 million or more circa 2004, the Bill & Melinda Gates Foundation, an independent foundation, ranks first by giving (\$1.3

billion). A total of 13 grantmaking operating foundations appear in this list, while 13 corporate foundations are included. The list contains only four community foundations. The balance of foundations are independents.

Many of these newer large foundations limit their giving to highly specialized interests:

- The Lumina Foundation for Education (IN)—created in 2000 from the conversion of USA Group, a nonprofit student loan guarantor and administrator—seeks to encourage Americans to obtain a post-secondary education. The foundation funds nationally in the areas of financial access, retention and attainment, and non-traditional learners and learning.
- The California Endowment (CA) and California Wellness Foundation (CA), both formed in the 1990s with assets derived from the sale of nonprofit health care providers to profit-making companies, concentrate largely on health promotion. For example, the California Wellness Foundation has developed a violence prevention initiative and is active in statewide health policy initiatives, while the California Endowment seeks to improve and expand access to quality healthcare in the state of California.
- The Broad Foundation (CA), established in 1999, seeks to improve elementary and secondary urban public education through support for better governance, management, and labor relations.

Future Prospects for Foundation Creation

Foundation formation responds to several factors, most notably, the state of the economy and financial markets, the accumulation of wealth, tax policies, social needs, and individual choices. The revitalization of organized philanthropy in the 1980s and 1990s—its unparalleled growth in giving and assets—owes much to the stock market boom and a strong economy, which generated tremendous wealth. The recession of 2001 and consecutive annual declines in the stock market between 2000 and 2002 created an environment with fewer incentives for donors to

establish foundations, leading to a slowdown in the rate of foundation growth.

Looking ahead, a number of factors may constrain foundation growth in the near term, including continued volatility of the stock market, an anticipated economic slowdown, renewed fears of inflation, and heightened uncertainty due to the hike in oil prices and increasing strife in the Middle East.

At the same time, leading figures in the business community and celebrities from various walks of life have given philanthropy greater prominence. In June 2006, for example, Warren Buffett received extensive media coverage when he pledged the bulk of his fortune—roughly \$31 billion—to the Bill & Melinda Gates Foundation. Many in the nonprofit community hope this historic gift will encourage other wealthy individuals to become philanthropists during their lifetime. However, it remains to be seen whether this gift spurs the creation of new foundations or, following Buffett's example, giving to existing foundations.

On the legislative front, Congress passed the Pension Protection Act of 2006, which stipulates new regulations for private and community foundations. The measure is intended to increase incentives for charitable giving while curbing abuses. A key provision of the bill that has generated concern among representatives of the grantmaking community involves IRA charitable rollovers. Under the new law, persons 70 ½ years or over are allowed to exclude from income charitable gifts of up to \$100,000 a year taken from their retirement funds. However, gifts to donor-advised funds, supporting organizations, and private foundations do not qualify for the exclusion. How this legislation—if enacted in its present form—will impact foundation formation is difficult to gauge at this time. To the extent possible, we will monitor the results of this and other policy changes on new formation.

Endnotes

1. The Center's criteria for identifying and counting grantmaking foundations exclude entities in the IRS private foundation file that are failed public charities, that have been inactive for more than three years, or that have not yet filed a 990-PF or reported any grant activity.
2. The Minnesota-based Dayton Hudson Foundation has since been renamed the Target Foundation.

3. The Foundation Center's count of community foundations may differ from the number identified by other national sources, explained in part by different methods of tracking supporting organizations. The Center reports as one fiscal unit a community foundation and the supporting funds that it administers, if those funds are jointly reported in the foundation's IRS tax form 990. The Center's data on active grantmakers also excludes startup community foundations that have not yet awarded grants.
4. This growth reflects both the creation of new foundations and the initiation of grantmaking by established operating foundations.
5. The provision allowed foundations to deduct the full value of appreciated gifts of stock to their foundations.
6. See R. Nelson, "An Economic History of Large Foundations," *America's Wealthy and the Future of Philanthropy*, ed. by T. Odendahl, New York: Foundation Center, 1987.