



Staying the Course

Few institutions — colleges, universities, foundations and large nonprofits — that rely on investments to generate cash for current operations and to underwrite future growth have escaped economic whiplash in recent years as the stock market tumbled and the economy stalled.

The Mott Foundation has been neither immune to, nor isolated from, this experience. Our assets rose dramatically in the 1990s, growing from \$1.162 billion in 1992 to \$3.227 billion in 1999. This near tripling of resources supported an even more robust level of growth in our grantmaking — from \$49 million in 1993 to \$153 million in 2000.

The end result of this growth is that during the past four years the Foundation has given away almost one-third (\$506 million) of the total grant dollars (\$1.6 billion) we have awarded in our 76 years of operation.

We had viewed the equity market expansion of the 1990s as a unique and unsustainable phenomenon. Unfortunately, we did not have a clear understanding of, or appreciation for, the many forces that would buffet the market in the years that followed. With the clarity of hindsight, we realize we should have taken a different path than the one we chose.

This has been, frankly, a humbling experience. At the same time, we are reminded that the Mott Foundation, like other foundations, brings more to the table than just financial resources. Our value as an institution is not measured solely by the size of our assets, or our grants. Our expertise as a grantmaker, our staff's knowledge and skills, and our commitment to community change and betterment remain intact.

The caution born of managing assets and grantmaking during periodic down markets over the past 40 years had made us reluctant to allocate every additional grant dollar that became available to our core grantmaking programs. Rather, a significant portion of these additional resources was earmarked for our Program Reserve Fund.

That fund is designed to function as a mechanism to provide flexibility for future program planning and for unanticipated opportunities, as well as a safety net

in the event our asset base experiences a decline. At the start of each calendar year, approximately 20 to 25 percent of our grants budget is earmarked for this account. Proposals from across the Foundation's programs compete for, and are funded from, the Program Reserve Fund throughout the year.

During those years when the assets were rising quickly, additional dollars were earmarked for this fund first, rather than being allocated directly to the core program budget. We used the extra grant dollars generated by the market run-up to underwrite large, one-time grants. Many of these grants went to longtime grantees whose work the Foundation has long championed, and which we wanted to strengthen for the future. Other large grants enabled us to seize truly special, one-time opportunities.

This strategy got the resources out to the nonprofit community and allowed us to respond to unique opportunities. But it did not create ongoing obligations that would be difficult to meet if and when the market retreated.

This approach resulted in \$103.9 million in large, one-time grants from 1998 through 2001 to nonprofits working in Michigan, the United States, South Africa, Central/Eastern Europe and Russia. Slightly more than half of these grants — 55.7 percent — were made in Flint and Genesee County under the Flint Area program. The balance was spread across the Pathways Out of Poverty (19.8 percent), Civil Society (13.5 percent), Environment (10.1 percent), and Exploratory and Special Projects (0.9 percent) programs.

Many of these grants were earmarked for endowments that will generate revenue for the recipient organizations for decades to come. Others funded construction of buildings or other capital improvement projects, or provided support for long-term programmatic initiatives, all of which will have lasting benefits for the grantees and their constituencies.

However, since December 31, 1999, when the market value of the Foundation's assets reached a high of \$3.23 billion, our assets have dropped 38 percent, to \$2.88 billion in 2000, \$2.46 billion in 2001, and \$2.01 billion at the end of 2002. After an increase in grants from \$113.9 million in 1999 to \$153 million in 2000, there was a drop in grant dollars during the ensuing years to \$129.7 million in 2001 and \$109.8 million in 2002.

The reality is that it generally takes 12 to 18 months for the full impact of a dramatic change in assets to be reflected in a foundation's grantmaking

activity. Because of this time lag, foundations cannot always adjust their grant budgets with equal rapidity — either up or down — to respond to swiftly changing markets.²

During this period, reductions were achieved by first cutting grant dollars allocated to the Program Reserve Fund; additional reductions that were required came from strategic, focused cutbacks in selected program areas.

Recognizing full well the potential impact of cuts on grantees, we took a number of deliberate actions that we believed helped us “stay the course” as a responsible grantmaker.

First, we exceeded our traditional 5 percent payout rate for the past two years, granting an additional \$827,000 in 2001 and \$16.9 million in 2002. Preliminary estimates based on the performance of our portfolio through the end of May 2003 are that we will again exceed the 5 percent payout rate by \$16 million to \$18 million in additional grants in 2003.

Second, we are fully meeting all of our existing funding commitments and not reducing or canceling grants with multiyear payments.

Third, whenever possible, we are focusing on our core program competencies and our long-term grantees, with a greater emphasis on general purpose and capacity-building grants. We are doing this for two reasons: Nonprofits find general purpose support valuable for the flexibility it provides, and funding capacity building is an investment in a grantee’s long-term future. This focus is not new for our foundation, but we have been placing increased emphasis on it in recent years. At the same time, we remain open to unusual opportunities, but our ability to respond to them will continue to be limited.

Fourth, our staff continues to provide what we believe are value-added activities to the nonprofit community through technical assistance to our grantees. We also actively participate in policy discussions related to our funding interests at the local, state, national and international levels.

Starting in 2000, for example, Richard K. Rappleye, Vice President of Field Services, provided management and administrative technical assistance for new and emerging, as well as established, Michigan foundations. Rappleye, who retired from Mott in January 2003, was instrumental in establishing NPower Michigan, an organization committed to ensuring that all nonprofits can use technology to expand the reach and impact of their work.

²Private foundations are required to make qualifying distributions (grant payments, foundation-administered expenses, excise tax and administrative expenses) equal to roughly 5 percent of their average assets each year. The basis of this calculation is a rolling, 12-month average of the foundation’s investment assets.

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Since 1996, we have had at least one staff member on loan to a grantee, beginning with Program Officer Pat K. Edwards, who continues in that capacity at the National Center for Community Education. Program Officer Suzanne Feurt, who is now with the Council on Foundations Inc., spent almost four years on loan to the European Foundation Centre. Senior Communications Officer Carol D. Rugg continues on loan to the Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination.

Early in 2003, Program Director Karen Aldridge-Eason became Mott's fourth recent loaned staff member when she was selected by Michigan Governor Jennifer M. Granholm to serve as the state's first liaison between Michigan's foundation community and state government. In her new role, Aldridge-Eason will serve as a policy adviser to the governor and will focus on the Michigan Land Use Leadership Council and the Project Great Start early childhood initiative.

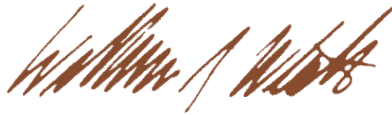
Fifth, we have cut steadily our administrative expenditures by reducing outside contracted services and staff travel, and instituting a hiring freeze on most open positions. This has resulted in some program staff members taking on grantmaking responsibilities in more than one program. We have also deferred capital investments in our facilities and equipment.

Despite these actions, we have had to make some reductions in our core program areas over the past two years. Rather than implementing flat, across-the-board cuts, we have taken a more thoughtful approach and asked the following questions in order to develop common criteria:

- Does the Foundation have a long funding history, extensive knowledge and experience with respect to a specific area? Is the Foundation a critical player?
- Are we the lead funder on an issue or one of a small group of foundations engaged in funding a specific area? Would withdrawal of our funding have a particularly severe impact on the field?
- Is the Foundation's grantmaking at a stage of development such that funds could be withdrawn without great disruption? Have we accomplished what we set out to do so our exit is logical? Has a level of stability been achieved in a particular field such that our involvement is no longer essential?
- Is there a window of opportunity for the Foundation to make a major impact on a particular area, such that discontinuation of funding would be unwise? Has sufficient momentum built up to put that issue on the radar screen of policymakers, other decisionmakers and/or the public?

Starting in late 2001 and continuing through 2002, the program staff and management used these questions to examine each grantmaking area and develop strategies that would maximize the effectiveness of available grant dollars for those issues in which we still fund, provide technical assistance and other forms of non-monetary support to grantees, and remain engaged at the policy table around those issues that are of long-term concern.

It is difficult to predict when the economy and the equity markets will recover. The current three-year downturn has lasted longer than many experts expected, and no one predicts a return to the halcyon days of the 1990s anytime soon, if ever. Our experience is a constant reminder that responsible grantmaking requires us to strike a thoughtful balance between the needs of today's grantees and the unknowable challenges that the future most assuredly will present us.

A handwritten signature in brown ink, appearing to read "William S. White". The signature is fluid and cursive, with a large initial "W" and "S".

William S. White
President