THE JOHNS HOPKINS NONPROFIT LISTENING POST PROJECT

JOHNS HOPKINS
UNIVERSITY
Center for Civil Society Studies

Communiqué no. 21

Taxing the Tax-Exempt Sector - A Growing Danger for Nonprofit Organizations

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Johns Hopkins University

A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, Alliance for Nonprofit Management, American Association of Museums, Community Action Partnership, LeadingAge, League of American Orchestras, Lutheran Services in America, and United Neighborhood Centers of America.

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Introduction

One of the long-standing features of American law has been the principle that nonprofit charitable organizations should be exempt from taxation. As one well-known specialist on the law of tax-exempt organizations has put it:

> "Congress is not merely 'giving' eligible nonprofit organizations 'benefits'; the exemption from income taxation (or charitable deduction) is not a 'loophole,' a 'preference,' or a 'subsidy'—it is not really an 'indirect appropriation.' Rather, the various provisions of the federal and state tax exemption system exist as a reflection of the affirmative policy of American government to refrain from inhibiting by taxation the beneficial activities of qualified tax-exempt organizations acting in community and other public interests."[1]

The severe fiscal pressure and budget deficits facing numerous states and localities across the country has given rise to concerns that increased numbers of state and local governments may be undermining this principle, targeting nonprofit organizations as potential sources of needed revenues, sometimes using special fees that get around the long-standing nonprofit exemptions from property and other taxes.[2] Anecdotal reports lend credence to these concerns. Thus, for example:

- The City of St. Cloud, Minnesota, removed the cost of streetlights from property taxes and created a new street light fee that is being charged to both nonprofit and for-profit property owners.[3]
- Nassau County, New York, recently proposed a "water use fee" that will be charged to tax-exempt public and nonprofit water and sewer users.[4]
- The City of Schenectady, New York is planning to require both nonprofit and for-profit property owners to pay a new "curb fee" based on how much of their property fronts city streets to help pay for road services.[5]
- The Mayor and City Council of Scranton, Pennsylvania, have contacted major nonprofits in the city to encourage them to make voluntary payments known as PILOTs, or "payments in lieu of taxes," to cover their share of city services.[6]

*As is normally the case with research reports of this sort, the data and interpretations reported here are the responsibility of the authors alone and may or may not reflect the views and interpretations of those who have offered advice or support to this Project or any organizations with which the authors may be affiliated.

Are these examples anomalies, or do they represent a broader challenge to the long-standing practice of exempting nonprofit organizations from direct taxation?[7] As states and localities face growing fiscal stress and budget shortfalls, are they looking to balance their budgets on the backs of nonprofit organizations? If so, what are the likely consequences of such action? What do nonprofits think of such proposals, and what are they doing in response?

Given the dearth of empirical data on nonprofit payments to state and local governments, the Johns Hopkins Nonprofit Listening Post Project conducted a Sounding, or survey, of its nationwide sample of nonprofit organizations in four key fields (children and family services, elderly housing and services, community and economic development, and arts and culture) to shed some needed empirical light on these important questions. Altogether, 358 Listening Post organizations responded to this survey, producing a response rate of 32 percent, which is quite respectable in this sector, particularly at a time of economic hardship. Respondents were spread across 44 of the country's 50 states.

Caveats

While every attempt has been made to provide a fair and unbiased picture of this issue, certain key features of the data reported here should be borne in mind in interpreting the results.

First, the data focus on only a portion of the entire universe of nonprofit organizations. In particular, we examine nonprofit experience in only the four key fields of nonprofit activity indicated above. While we chose these fields because they provide a broad overview of nonprofit activity spanning core human services, community development, and culture and the arts, we make no claim that the findings will apply equally to all fields of nonprofit endeavor. It is especially important to note that this sample does *not* include hospitals and higher education—two fields that oftentimes are the target of government revenue-generation strategies.

More specifically, the data reported here come from a Listening Post Project Sounding fielded in the fall of 2010 to the project's two national panels of organizations in these four fields of nonprofit operation: (1) a "directed sample" of children and family service agencies, elderly housing and service organizations, community and economic development groups, museums, and orchestras recruited from among the members of major nonprofit intermediaries operating in these fields (i.e., the Alliance for Children and Families, American Association of Museums, Community Action Partnership, LeadingAge, League of American Orchestras, Lutheran Services in America, the former National Congress for Community Economic Development, and United Neighborhood Centers of America); and (2) as a check on any distortion that this sampling strategy may have introduced, a "random sample" of organizations in these same basic fields selected from IRS listings of agencies or more complete listings suggested by our partner organizations where they were available. In addition to the two national samples, the project has started to build a set of state nonprofit Listening Post samples beginning with members of the Michigan Nonprofit Association and including a parallel sample of Michigan nonprofit organizations in the same fields chosen randomly from IRS listings. Because the Michigan respondents are over-represented in the overall sample, their results were weighted to offset this, and the weighted results are reported throughout. Altogether, 358 organizations, or 32 percent of those that received the Sounding, responded. For further detail on the sample composition, see **Appendix A**.

Second, it is important to recognize that only 21 percent of Sounding respondents reported revenues of under $500,000, which is far lower than the share of small organizations in the nonprofit sector overall or in the fields on which we focus. While the results may not be fully representative of *all organizations* in these fields, however, they are far more representative of the *bulk of the activity*, which tends to be concentrated in the larger organizations.[8] At the same time, the inclusion of a significant number of small organizations in the sample makes it possible to determine whether, and how much, their experience differs from that of larger nonprofits, and these size differences are reported throughout where they are substantial.

Third, since our respondents are scattered among 44 states and Washington D.C., we are not in a position to make state-by-state comparisons given our sample size, though it has been possible to examine how findings varied by Census region (i.e., Northeast, South, Midwest, and West).

Finally, the respondents to this survey were overwhelmingly the chief executives or other senior managers of the responding organizations. While this gives us great confidence in the validity of the responses, this focus on senior leadership imposed its own constraints. Thus, as with any survey of busy nonprofit managers, we had to make difficult choices about the level of detail to pursue. While we would have liked to obtain detailed information on all the payments nonprofits are making to local and state governments, we decided to restrict ourselves in this inquiry to basic, key questions about specific categories of payments (e.g., user fees, field-specific taxes, payments-in-lieu-of taxes, etc.). We see this, therefore, as an exploratory inquiry and by no means the last word on the subject, and we suggest at the end some further research that is needed on questions that this Sounding raises.

Despite these caveats, we believe the results reported here shed important new light on an issue that has attracted far too little empirical attention, but that is threatening the health of this critical set of organizations.

More specifically, five key findings resulted from this inquiry:

1. Responding nonprofits have already been hit by a variety of taxes, fees, or alternative voluntary payments to local government.
2. These types of payments are not new: respondents that are making such payments generally have been doing so for at least several years.
3. Responding nonprofits are concerned that the current budget problems may cause governments to turn up the heat on them further at precisely the time when they can least afford it.
4. Such taxes and charges can affect the viability of particular programs or entire operations given the perilous state of nonprofit finances.
5. While most responding nonprofits oppose such taxes and charges, few organizations report having taken actions to thwart current proposals or stave off potential ones.

The balance of this Communiqué examines these and other important findings in more detail.

Key Findings

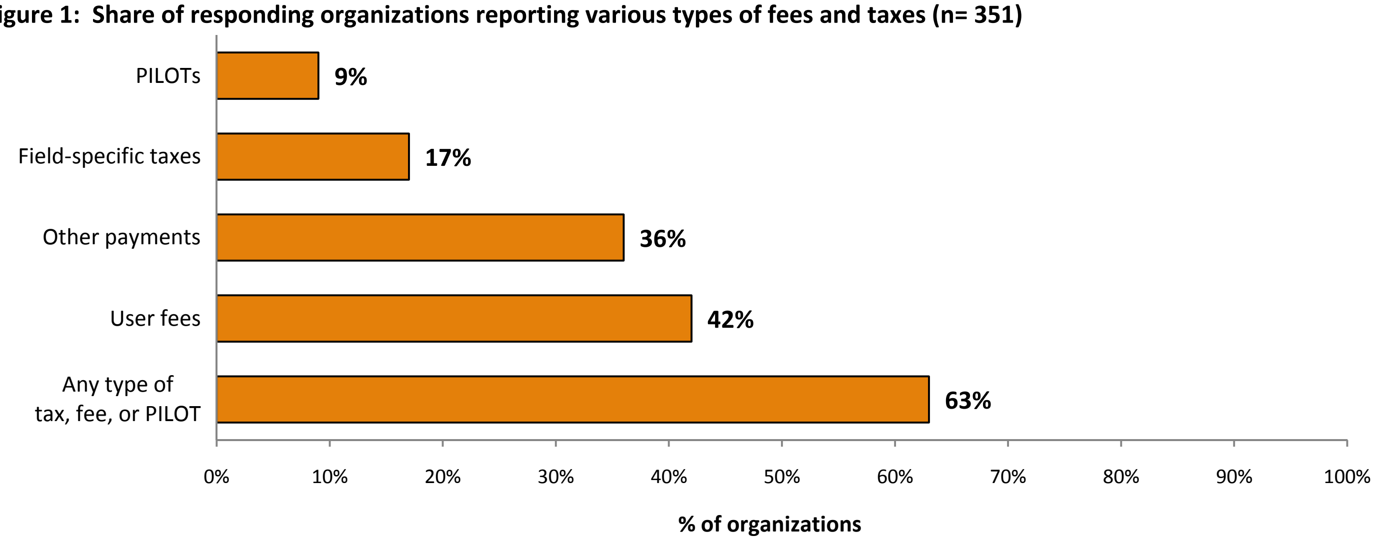
I. Payments to state and local governments are already widespread among responding nonprofits.

Overview

Despite the belief that nonprofits are free of taxes, substantial proportions of respondents to our survey reported being subjected to one or another type of government tax or fee, though some types are more common than others. In particular, as shown in **Figure 1**:

- Least common among surveyed nonprofits are so-called PILOTs, or "payments in lieu of taxes." Only nine percent of all respondents currently make such payments to local or state governments. As will be noted more fully below, moreover, such payments are largely restricted to the largest organizations, and even then less than 20 percent have agreed to make such payments.

Figure 1: Share of responding organizations reporting various types of fees and taxes (n= 351)



Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

- Nearly a fifth of all respondents (17 percent) reported that their services or activities are subject to field-specific taxes, such as taxes on admission charges or bed taxes. Two-thirds of these specifically identified bed taxes or ticket taxes and the remaining one-third listed other specific taxes or provided general responses indicating that these were actual charges targeting their operations.

- Somewhat more common were "other" types of payments to state or local governments (including, for example, property tax and sales tax payments), with over a third of all respondents (36 percent) making these types of payments.[9]

- 42 percent of all respondents reported paying user fees for services such as water, sewer, or garbage collection over the past year.

- Altogether, nearly two-thirds of all respondents (63 percent) are currently paying some type of taxes or fees, or making alternate voluntary payments such as PILOTs, to local governments.[10]

Variations by field, size, and region

Some important variations were evident in the incidence of these fees and charges by field and size of organization:

- *PILOTs* were most common among elderly housing and service organizations, the largest respondents, and nonprofits located in the Northeast and Midwest regions, though only relatively small proportions of agencies even in these fields and areas were subject to such payments, as shown in **Table 1**. Thus, while just 9 percent of all respondents currently pay PILOTs to local or state governments, this share reached 26 percent among elderly service and housing groups, 19 percent among the largest organizations, 20 percent among those located in the Northeast, and 12 percent among those located in the Midwest.[11] It is also important to note that no respondents with revenues less than $500,000, and only marginal proportions of museums (1 percent), orchestras (2 percent), community and economic development groups (5 percent), and children and family services agencies (7 percent) reported making such payments.

Table 1: Share of Responding organizations reporting paying various taxes and fees

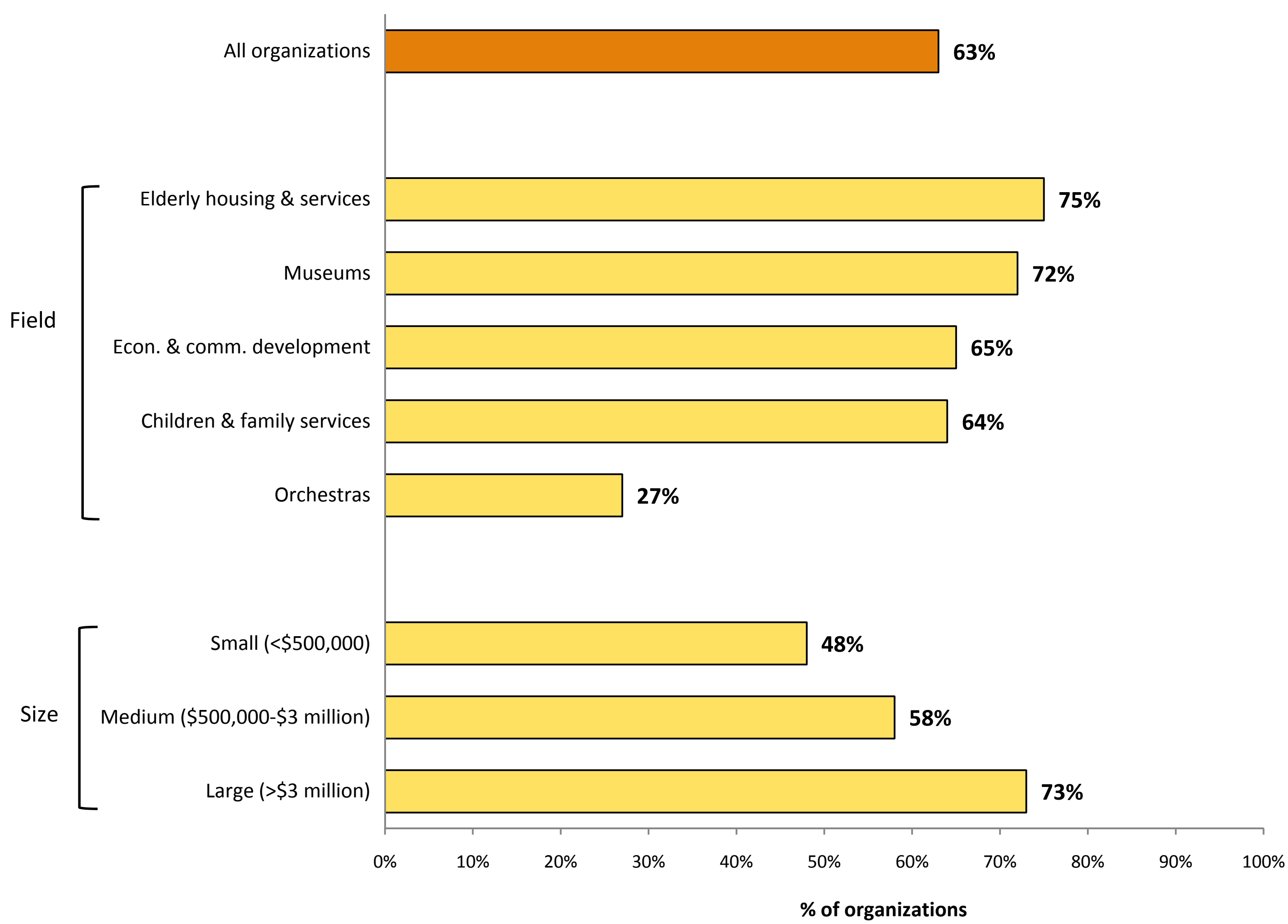
	Percent of respondents reporting payment of:			
By field	**PILOTs**	**Field specific taxes**	**User fees**	**Other payments**
Child & family services	6.7%	12.4%	49.4%	30.0%
Community & economic development	4.7%	7.0%	47.7%	34.9%
Elderly housing & services	26.4%	36.8%	43.7%	44.8%
Museums	0.9%	4.3%	53.2%	51.1%
Orchestras	2.1%	12.5%	6.3%	18.8%
Other	0.0%	16.2%	42.1%	36.8%
Total	*9.1%*	*17.1%*	*41.6%*	*36.3%*
By size				
<500,000	0.0%	6.9%	38.0%	29.2%
500,000-3million	2.7%	10.6%	39.8%	35.4%
>3million	18.6%	27.6%	44.5%	40.4%
Total	*9.4%*	*17.6%*	*41.6%*	*36.4%*

Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

- *Field-specific taxes* were also most commonly paid by elderly housing and service organizations, by the largest respondents, and by nonprofits located in the Northeast. Thus, while just 17 percent of respondents' services or activities are currently subject to field-specific taxes, this share reached 37 percent among elderly service and housing groups, 28 percent among the largest organizations, and 24 percent among those located in the Northeast. By contrast, only 7 percent of small organizations and 11 percent of mid-sized organizations reported paying such taxes.

- Finally, *user fees* were most commonly paid by museums, by the largest respondents, and by nonprofits located in the West and Northeast regions. Thus, while 42 percent of respondents are currently paying user fees, this share reached 53 percent among museums, 45 percent among the largest organizations, 49 percent among those located in the West, and 48 percent among those located in the Northeast. In this category of fees, however, the differences among organizations of different sizes are far less pronounced, with 38 percent of the smallest and 40 percent of the mid-sized organizations reporting being subject to such charges. Moreover, while just 6 percent of all orchestra respondents indicated that they currently pay such fees, this is likely related to the fact that many responding orchestras do not own the venues in which they perform, and such fees are levied on property owners and therefore probably passed along to the orchestras in their rental payments.

Figure 2: Share of responding organizations reporting paying any type of tax, fee, or PILOT, by field and size (n= 351)



Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

- *"Other" payments* were also most commonly paid by museums and the largest organizations, although no significant variations existed by region and the variations by size of organization were not as extensive as in some other types of payments. Thus, while 36 percent of respondents are currently making other payments to local and state governments, this share reached 51 percent among museums and 40 percent among the largest organizations, but 35 percent of mid-sized organizations and 29 percent of small ones also reported making such other payments. One caveat worth noting here is that the substantial proportion of museums reporting "other payments" may be including the sales taxes they have collected on purchases in their gift shops.

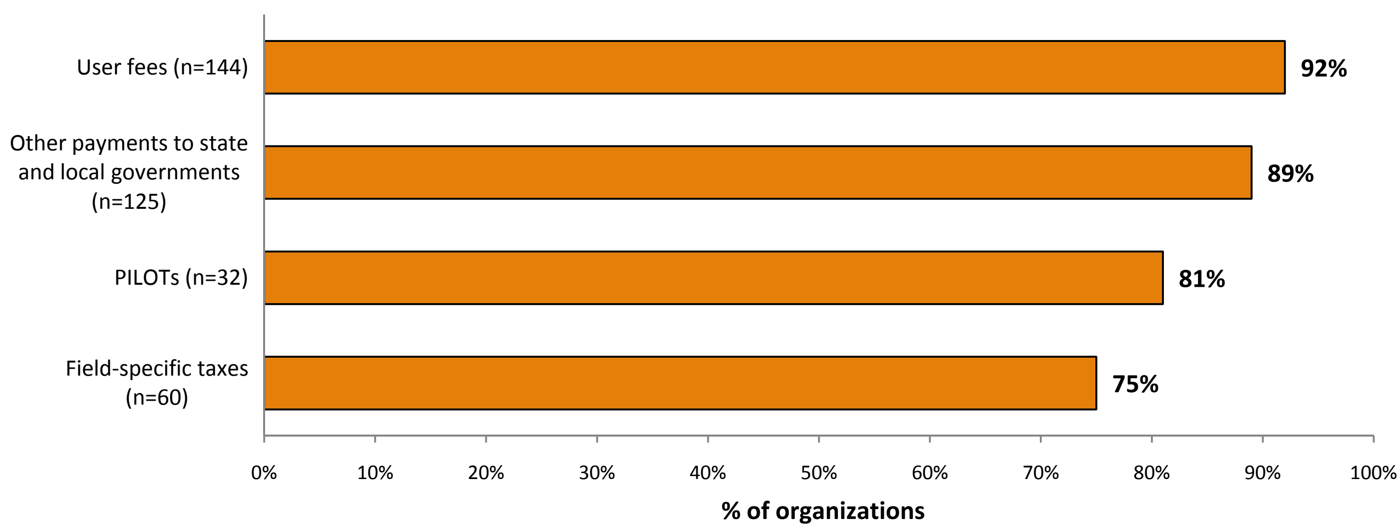
- Putting it all together, substantial proportions of all types of responding organizations reported making some type of tax, user fee, or payment to state or local government, as shown in **Figure 2**. *Elderly housing and service* organizations were the most likely to report paying some type of tax, fee, or alternative voluntary payment to local government, with a striking 75 percent reporting such payments. But substantial proportions of *museums* (72 percent), *community and economic development groups* (65 percent), and *children and family service agencies* (64 percent) also reported paying some type of tax, fee, or alternative voluntary payment to local government. In stark contrast, just over a quarter of all *orchestras* (27 percent) reported making such payments, perhaps because they often do not own their performing venues and are therefore not liable for the kind of payments and user charges that property owners are typically subject to. When it comes to field-specific taxes, however, orchestras are as vulnerable to taxation as other types of responding organizations.

- There were also variations by size, though not as pronounced as might be expected. In particular, while nearly three-quarters of the largest organizations (73 percent) reported that they are currently paying some type of tax, fee, or alternative voluntary payment to local government, so did about half (48 percent) of the smallest organizations and well over half (58 percent) of the mid-sized organizations. Interestingly, there were no significant differences by region.

II. Responding nonprofits' payments to state and local governments are not new.

Our data also reveal that nonprofit payments to governments are not new—of all the respondents making such payments, the bulk have been making them for at least several years, indicating that state and local governments have already gone to this well in the past, and perhaps drained it dry. Thus, as illustrated in **Figure 3**:

Figure 3: Share of organizations paying user fees, taxes, PILOTS or other payments who have done so for 5 or more years



Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

- Among the organizations currently paying user fees or "other" payments to state or local governments, the vast majority (92 and 89 percent, respectively) have been doing so for at least 5 years.
- Similarly, among the limited number of organizations currently paying PILOTS, the overwhelming majority (81 percent) have been making such payments for 5 years or more, and an additional 13 percent have been making them for at least 3 years.
- So, too, among the organizations whose activities are subject to field-specific taxes, three-quarters (75 percent) have been subject to such taxes for 5 years or more, and an additional 12 percent have been subject for at least 3 years.

III. Sizeable numbers of responding nonprofits are currently facing increased fiscal pressures from State and local governments.

While already burdened by fees, taxes, and PILOT payments to local governments, nonprofit respondents report that local governments have been placing increased financial pressure on nonprofits during the current financial crisis. Reflecting this:

- A quarter of the 9 percent of all respondents currently paying PILOTs expect to pay more this year than they did in the previous year.
- Nearly one out of every five of the 17 percent of organizations whose services or activities are subject to field-specific taxes expect the tax rate to increase in 2011.
- A quarter of the 36 percent of all respondents currently making any other type of payments to state or local governments expect to pay more this year than they did last year.
- Fourteen percent of all respondents indicated that they are aware of actual proposals in their state or locality to impose new taxes or fees on nonprofit organizations and a substantial 43 percent indicated concern that their state or local government will adopt new fees or taxes targeting nonprofits during the next year.

As noted in **Figure 4**, asked what the consequence of such increased taxes or fees might be on their operations, substantial proportions of the respondents indicated that the consequences could be significant, requiring them to:

- Introduce or raise fees for programs/services (40 percent);
- Make a special appeal for donations to cover the additional charges (40 percent);
- Cut programs/services (21 percent);
- Reduce staff (20 percent);
- Cut benefits (18 percent);
- Reduce the number of people served (16 percent); or
- Cut wages (14 percent).

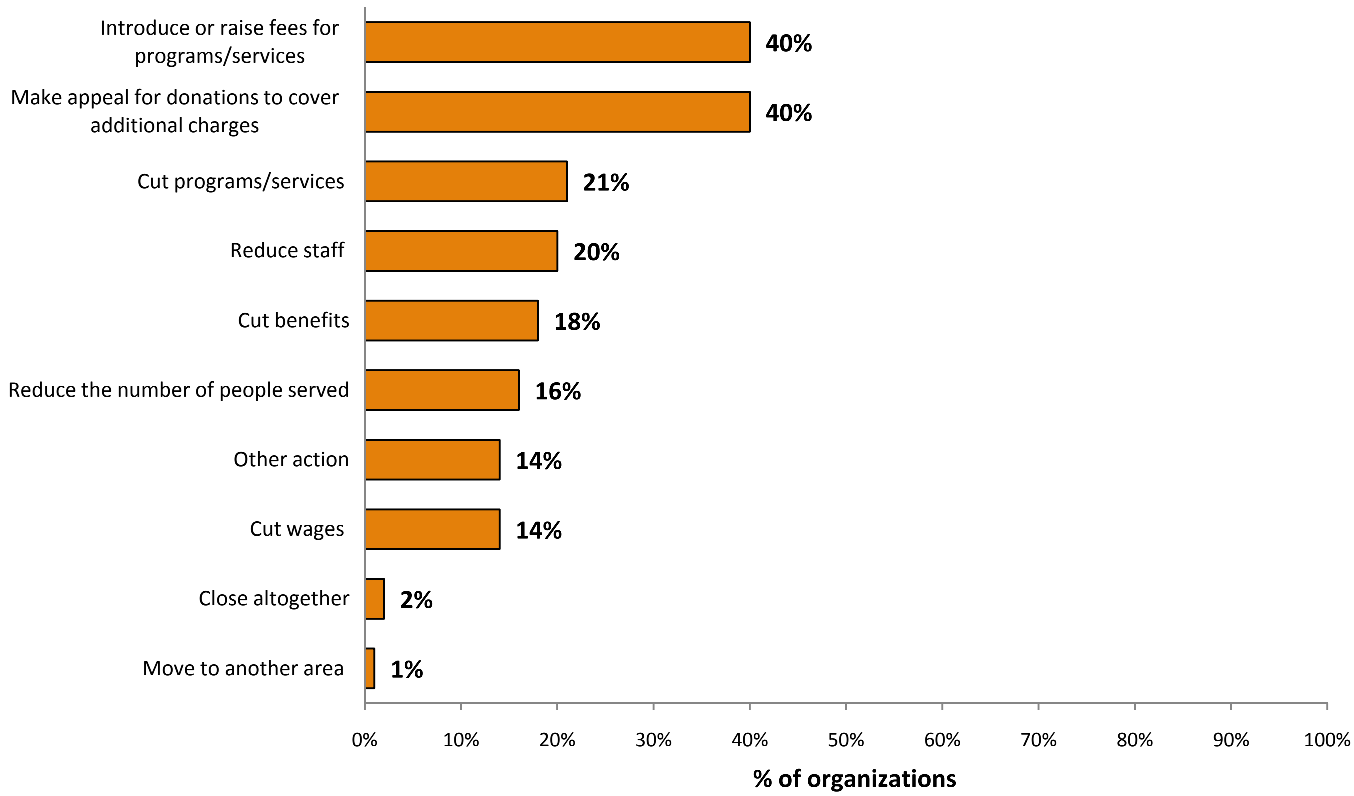
Typical of respondent comments about the likely effects that new or increased government taxes or fees could have on them are these:

> "We have had to put staff on 1 day of unpaid furlough per month for two years. This is effectively a pay cut. We have also suspended our match to employees' 403(b) contributions for the past two years. We cannot cut any more without cutting services." (Elderly housing & services)

> "We are working within a Medicaid reimbursement system that has been capped since 2002. Even though minimum wages have been increased via state mandate, reimbursement has not been increased to cover the mandated change. Overall, we have been reducing our expenditures by 2-4% per year since 2002. Pay has been frozen for the past 4 years; benefits have been decreased to the extent possible; client selection has become something that determines if a person is served—if cost to serve is greater than reimbursement to be received then services must be declined; on a long term basis, we find that the government is becoming a more significant impediment that places the entire service system at risk of closing—350+ jobs lost; 200 clients unserved; not an acceptable scenario but one that must be considered." (Children & family services agency)

"Our budget is tight enough as it is. When faced with additional expenses, our only choice is to secure additional funding, cut services, or cut expenses. Government needs to be paying us for our services since we provide support that offsets their community obligations and decreases the need for them to provide such services." (Community & economic development organization)

Figure 4: Actions responding nonprofits would be likely to take if new proposals passed (n=351)



Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

IV. Respondent payments to government represent a significant fiscal burden.

Our Sounding also revealed that the taxes and fees paid by nonprofits to state and local governments are often quite sizeable. More specifically:

- The median amount of PILOT payments paid by the 9 percent of all organizations making such payments was $30,000 in 2009. However, since some very large organizations were paying significantly more, the average amount of such payments was $422,095.

- The median amount of respondents' user fees was $3,064 in 2009. Again, since some large organizations were paying considerably more, the average amount of such fees was $121,277. There were also significant variations by size—while the largest respondents made average payments of $258,524, mid-sized groups paid an average of $19,022, and the smallest groups an average of $2,557. Still, the recent strategy of many local governments to shift significant services from direct delivery and funding to outsourcing and user fees has been imposing significant new costs on nonprofit organizations at a time when they can least afford them.

- The median amount of respondents' other fees and taxes was $8,000 in 2009. Again reflecting the fact that some respondents paid significantly more, the average amount of such fees and taxes was $78,480 in 2009. There were also significant variations by size, with the largest groups making average payments of $142,541, compared to the mid-sized and smaller groups, which made average payments of $23,208 and $7,856, respectively.

- Taken as a whole (i.e., looking at all the PILOTs, field-specific taxes, user fees, and other taxes), the median total payments to state and local governments amounted to 1 percent of total operating expenditures. The average amount for all organizations, however, reached 2.6 percent of total operating expenditures. Here, there were only marginal variations by size, with the smallest groups' payments accounting for an average of 2.0 percent of their total operating expenditures, the mid-sized groups 3.0 percent, and the largest 2.5 percent.

These payments naturally impose additional fiscal stress on already struggling organizations. Typical of the comments respondents offered about the burden these taxes and payments create are these:

> “Our nonprofit is in place to help underserved, under employed and disenfranchised individuals. We operate with inadequate funding most years. It's an unnecessary burden to tack on additional fees to an already distressed budget.” (Children & family services agency)

> “[These payments] impose an undue accounting burden on understaffed NPOs.” (Orchestra)

> “Our government contracts are routinely not funded adequately, and do not take into account the full cost of overhead. Since the bulk of our funding is from government, taxes would be taking back some of the revenue from us that we received from government in the first place and that oftentimes wasn't enough to fully pay for the service.” (Children & family services agency)

V. Most respondents oppose proposals to impose taxes or charges on nonprofits

Overwhelming majorities of respondents stressed that taxing or imposing fees on the sector would have severe, detrimental effects on nonprofit programs and services. In particular:

- 89 percent of all respondents disagreed that proposals aimed at boosting government revenues from nonprofits are necessary in light of the current budget crunches that state/local governments are experiencing;
- 90 percent of all respondents indicated that such proposals reflect policymakers' lack of understanding about the nonprofit sector; and
- 88 percent of all respondents indicated that such proposals will result in nonprofits having to cut critical programs and services.

Comments provided by respondents further illustrate nonprofit concerns around such proposals:

> “It's odd to think of making payments to the very governments whose agencies support us with grants.” (Theater)

> “PILOTs are an inappropriate way for municipalities to attempt to cover their own shortfalls at the expense of other organizations which are serving the community, and should be strongly opposed and discouraged.” (Elderly housing & services agency)

> “Nonprofits have proven their cost effectiveness especially when compared to the cost of government provision of the same service – it is critical that policy makers understand the role nonprofits play in providing needed services during financially difficult times. Increasing the burden for non-profits will not help government provide for the health and safety of 'the people'.” (Children & family services agency)

> “Non-profits, in many cases, eliminate liabilities, and offer services that the local government would otherwise have to provide, and that is why they deserve to be exempt from taxes.” (Children & family services agency)

> ““While I agree that we share responsibility for costs, I believe we meet those responsibilities through our charitable activities.” (Community & economic development organization)

> “The government should take into consideration that the services provided by non-profits might have to be taken over by the government, should non profits have much more to carry financially. If

you kill the goose, where are the eggs coming from?" (Theater)

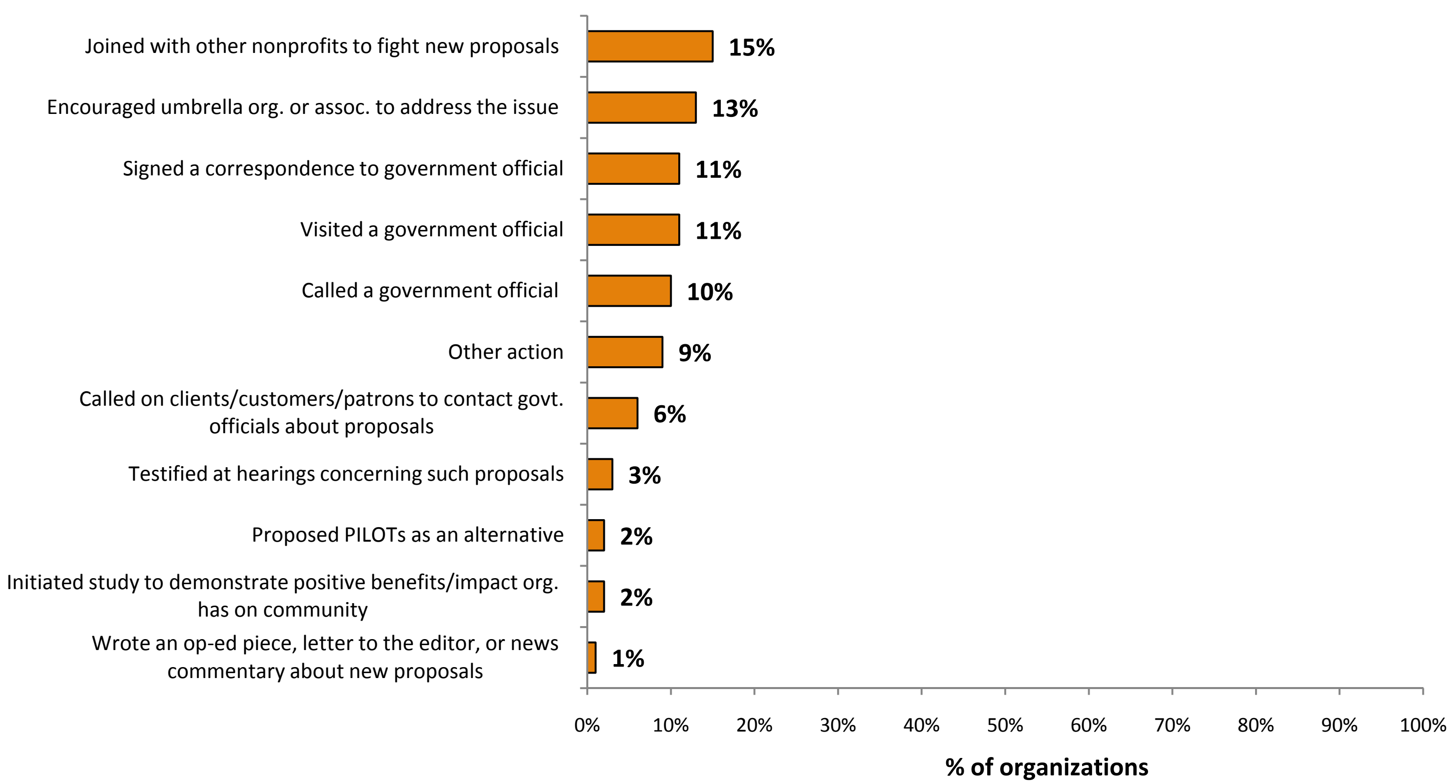
"We are paying these fees, in essence, by being underpaid for services currently provided. We are subsidizing services we provide for government (foster care, residential, specially) by as much as 20 percent." (Children & family services agency)

VI. Few respondents report taking actions against existing or potential proposals.

Despite their concerns, however, few respondents indicated that they have taken action to discourage local or state officials from adopting such measures. Thus, as reflected in **Figure 5**, only minorities of respondents have:

- Joined with other nonprofits to fight such proposals (15 percent);
- Encouraged an umbrella organization or association to address the issue (13 percent);
- Visited (11 percent), called (10 percent) or signed a correspondence to a government official (11 percent) about such measures;
- Testified at hearings concerning such proposals (3 percent);
- Initiated a study to demonstrate the positive benefits/impact their organization has in the community (2 percent); or
- Written an op-ed piece, letter to the editor, or news commentary about such measures (1 percent).

Figure 5: Actions nonprofit respondents have taken to fight new proposed taxes and charges (n= 351)



Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

In addition to lack of knowledge about actual proposals in their state or locality to impose new taxes or fees on nonprofit organizations (just 14 percent noted that they were aware of such proposals), data from a recent Listening Post Sounding on nonprofit advocacy and lobbying suggest that lack of staff time and staff skills may be responsible for this relatively limited involvement of operating organizations in advocacy work to combat such proposals.[12]

Conclusion

Surprisingly large proportions of nonprofits, at least in the fields we have surveyed, are thus already having to pay some type of tax or fee to local governments, and most of these have been doing so for at least several years. The long-standing principle that nonprofits should be free of taxes in order to be able to pursue their charitable purposes has thus been seriously eroded across the nation, nibbled away one fee or charge at a time without attracting a lot of attention. Now this process is being further fueled by the current state and local budget crisis.

How widespread these practices are in fields beyond those examined here remains largely unknown, however. What is more, significant variations appear to exist among organizations of different sizes and in different regions and states. Additional research is therefore needed in order to examine what may lie behind these variations. In this way the Listening Post Project may be fulfilling one of its central objectives—to serve as an early warning system and leading indicator on issues facing nonprofits and thus a potential spur to further inquiry when it is needed.

In the process, the findings reported here could usefully alert state and local governments to the self-defeating course they are on in seeking to subject nonprofits to increased taxes and fees given the important role that nonprofits play in delivering publicly financed services. By increasing the taxes and other burdens they impose on nonprofits, state and local governments are weakening the delivery systems for their own programs and increasing the costs they will have to cover to secure nonprofit help. What is more, it is well to remember that nonprofit organizations are major employers in their communities, and that they therefore generate payrolls that in turn translate into income and sales tax revenues for states and local governments. Both state and local officials and nonprofits might therefore use the evidence presented here as an opportunity to begin a conversation about how to find a less self-defeating way to solve the fiscal pressures state and local governments are now facing.

Appendix A

Project background and sample information

1) Project Background

The Listening Post Project is a collaborative undertaking of the Johns Hopkins Center for Civil Society Studies and eleven partner organizations—Alliance for Children and Families, Alliance for Nonprofit Management, American Association of Museums, Community Action Partnership, LeadingAge, League of American Orchestras, Lutheran Services in America, the former National Congress for Community Economic Development, and United Neighborhood Centers of America. The Listening Post Project was launched in 2002 to provide more reliable and timely information on the major challenges facing U.S. nonprofit organizations and the promising approaches nonprofit managers are applying to cope with them.

2) Sampling Strategy

The project includes two national panels of grassroots nonprofit organizations on the front lines of nonprofit operation. The first is a "directed sample" of children and family service agencies, elderly housing and service organizations, community and economic development groups, museums, theaters, and orchestras recruited from the memberships of our partner organizations. The second is a "random sample" of organizations in these same basic fields selected from IRS listings of agencies or more complete listings suggested by our partner organizations where they were available. The random sample thus makes it possible to check on any possible distortion introduced by relying on the directed sample. In addition to the national samples noted above, the Listening Post Project has been developing a cross-section of state Listening Post samples. The first of these state samples, covering Michigan, has participated in the past eight Soundings, since September 2008. The state sample includes organizations selected from among members of the Michigan Nonprofit Association as well as a parallel sample selected randomly from IRS listings of Michigan nonprofits in similar fields.

It is important to note that this sampling strategy enables us to cover the bulk of nonprofit activity in the project's targeted fields. More specifically, according to Internal Revenue Service data reported on 990 Form filings, 68 percent of the organizations in the fields covered in our survey are classified as small (revenue less than $500,000 as of 2007). Taken together, these small organizations accounted for only 7 percent of the total nonprofit revenues in these fields. By contrast, 32 percent of the organizations were mid-sized or large (revenues of $500,000 or more), but these organizations accounted for 93 percent of the total revenue (see Table A-1). A straight sample of organizations in these fields would thus have missed most of the nonprofit activity.

Appendix Table A-1: Distribution of population of tax-exempt organizations in project fields, by revenue size category

Size	N	Total revenue	% of total orgs	Total revenue- % of total
<500,000	42,471	6,629,685,616	68%	7%
500,000-3million	15,051	17,838,691,348	24%	20%
>3million	4,869	65,953,639,926	8%	73%
Total	*62,391*	*90,422,016,889*		

Source: IRS weighted sample, 2007

3) Sounding Distribution

The current Sounding was distributed to these panels on September 21, 2010 and closed on October 8, 2010. As Appendix Table A-2 demonstrates, the Sounding was distributed to 1,130 organizations (686 "directed" and 444 "random" groups), and 358 responded. The overall response rate was 32 percent, which is considered respectable for surveys of this magnitude in this sector. Because agencies self-selected into our sample from among member agencies of national umbrella organizations in their respective fields, we do not present the results as necessarily representative of the entire nonprofit sector. However, the sample agencies are distributed broadly across the nation and reflect reasonably well the known characteristics of the organizations representing the vast bulk of the resources, if not the vast bulk of the individual organizations, in their respective fields.

Appendix Table A-2: Government taxation response rate

	Total sample	Directed sample	Random Sample
Sample	1130	686	444
Respondents	358	263	95
Response rate	32	38	21

Source: Listening Post Project Government Taxation Sounding, 2010

4) Weighting

The sample covers the entire nation. To make sure that the sample composition is representative of the geographical distribution of nonprofit organizations across the U.S., a weighting system has been used. Appendix Tables A-3 and A-4 illustrate the differences between the original sample and the weighted sample. The analysis contained within this report uses the weighted sample as shown in Appendix Table A-4, as it provides a more accurate representation of the nonprofit sector in the nation.

Appendix Table A-3: Unweighted sample

Type of organization	Total sample		Directed sample		Random sample	
By field	**N**	**%**	**N**	**%**	**N**	**%**
Child & Family Services	91	25%	63	24%	28	29%
Community & Economic Development	44	12%	31	12%	13	14%
Elderly Housing & Services	89	25%	73	28%	16	17%
Museums	47	13%	31	12%	16	17%
Orchestras	49	14%	40	15%	9	9%
Other	38	11%	25	10%	13	14%
Total	*358*	*100%*	*263*	*100%*	*95*	*100%*
By size*						
<500,000	73	20%	32	12%	41	43%
500,000-3million	115	32%	86	33%	29	31%
>3million	159	44%	139	53%	20	21%
Undisclosed	11	3%	6	2%	5	5%
Total	*358*	*100%*	*263*	*100%*	*95*	*100%*

**Revenue is not available for all organizations*

Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

Appendix Table A-4: Weighted sample

Type of organization	Total sample		Directed sample		Random sample	
By field	**N**	**%**	**N**	**%**	**N**	**%**
Child & Family Services	90	26%	62	24%	28	29%
Community & Economic Development	43	12%	30	12%	13	14%
Elderly Housing & Services	87	25%	71	28%	16	17%
Museums	46	13%	30	12%	16	17%
Orchestras	48	14%	39	15%	9	9%
Other	38	11%	25	10%	13	14%
Total	*352*	*100%*	*257*	*100%*	*95*	*100%*
By size*						
<500,000	71	20%	31	12%	40	43%
500,000-3million	113	32%	85	33%	28	30%
>3million	156	44%	136	53%	20	22%
Undisclosed	11	3%	6	2%	5	5%
Total	*351*	*100%*	*258*	*100%*	*93*	*100%*

**Revenue is not available for all organizations*

Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

5) Geographic Distribution of Respondents

The 358 survey respondents represented organizations located in 44 states and in Washington D.C. While we could not make state-by-state comparisons given our sample size, we were able to analyze how the findings varied by Census region (i.e., Northeast, South, Midwest, and West) and feel confident that the results are illustrative of these areas. Table A-5 illustrates how the sample was distributed by Census region.

Appendix Table A-5: Sample distribution by region

	Total sample		Directed sample		Random sample	
Region	**N**	**%**	**N**	**%**	**N**	**%**
Northeast	79	22%	60	23%	19	20%
South	85	24%	62	24%	23	24%
Midwest	131	37%	92	35%	39	41%
West	63	18%	49	19%	14	15%
Total	*358*	*100%*	*263*	*100%*	*95*	*100%*

Source: The Johns Hopkins Nonprofit Listening Post Project Government Taxation Sounding, 2010

[1] Bruce R. Hopkins, *The Law of Tax-Exempt Organizations.* Ninth Edition. Hoboken, NJ: John Wiley and Sons, Inc., 2007, pp. 19-20.

[2] On the fiscal difficulties facing state and local governments in the wake of the recent recession, see the National League of Cities May 2010 Research Brief, available online at: http://www.nlc.org/ASSETS/2814803215F44BE08B60E35203944BA6/RB_JobsEconomy_10.pdf; and the "Fall 2010 Fiscal Survey of the States," produced by the National Governors Association and the National Association of State Budget Officers' available at: http://www.nga.org/Files/pdf/FSS1012.PDF.

[3] For more details on this fee, see Rick Cohen's "More Fees for Nonprofits in Minnesota," in *Nonprofit Newswire*, August 25, 2010.

[4] For more details on this proposal, see Rick Cohen's "Legislator 'Toilet Tax' Could Cost Taxpayers," in *Nonprofit Newswire*, October 18, 2010.

[5] For more details on this proposal, see Bruce Trachtenberg's "Nonprofits Would Like City to Curb Plans for New Fee," in *Nonprofit Newswire*, October 7, 2010.

[6] For more details on this, see Rick Cohen's "Who's on First? Who Cares, Give Us Your PILOTs," in *Nonprofit Newswire*, September 14, 2010.

[7] Nonprofit organizations do generate significant tax revenues for communities indirectly by virtue of the salaries they pay to their employees. These employees pay federal and state taxes on their income as well as state and local sales taxes on their purchases just like other employees. Since the nonprofit sector employs the fourth largest workforce of any industry in the United States, this translates into significant revenue for governments at all levels.

[8] According to Internal Revenue Service data reported on 990 Form filings, 68 percent of the organizations in the fields covered in our survey are classified as small (revenue less than $500,000 as of 2007). Taken together, these small organizations accounted for only 7 percent of the total nonprofit revenues in these fields. By contrast, 32 percent of the organizations were mid-sized or large (revenues of $500,000 or more), but these organizations accounted for 93 percent of the total revenue. A straight sample of organizations in these fields would thus have missed most of the nonprofit activity.

[9] The "other" category captures other payments to state or local governments such as property taxes and sales taxes. It does not include unemployment insurance taxes or income taxes on activities unrelated to the respondents' charitable missions.

[10] Interestingly, our Sounding also found that few nonprofits (just 6 percent) benefit from special taxing districts, which generally direct a percentage of local taxes to specific types of nonprofit organizations.

[11] For the purposes of this report, large organizations are those with annual revenues greater than $3 million. Mid-sized organizations have annual revenues between $500,000 and $3 million, and small organizations have annual revenues less than $500,000.

[12] For more information on these data, see the Johns Hopkins Center for Civil Society report, *Nonprofit America: A Force for Democracy?* Available on-line: http://www.ccss.jhu.edu/pdfs/LP_Communiques/LP_Communique9_Advocacy_2008.pdf.