USING STATISTICS TO INFORM PUBLIC POLICY: EXAMPLES FROM RESEARCH ON PHILANTHROPIC FOUNDATIONS

Elizabeth T. Boris
Director
Nonprofit Sector Research Fund
The Aspen Institute

Prepared for:
Conference on Charitable Statistics
Washington, D.C.
May 8, 1992

INTRODUCTION

Of what use are statistical data on the nonprofit sector? Who benefits from this information and what difference does it make? Although some individuals may regard research on the sector as a frill, I am convinced that developing relevant data is a necessity; it is essential both for effective operations and for realistic public policies.

Based on twelve years of experience directing the research program of the Council on Foundations, a national membership organization composed of philanthropic foundations and corporate giving programs, I have identified four major questions that nonprofits must have data to answer. These questions are: What do the clients or members need? How well is the organization meeting those needs? What should the public know about the organization, its clients, members and areas of interest? What information must the government have to make intelligent decisions about public policy affecting nonprofits and the people and causes they serve?

The first three questions are not the primary subjects of this paper, but they merit some discussion. Nonprofits increasingly use data to ascertain needs and develop programs to meet those needs. This is usually accomplished through an assessment of the clients or members, the area of service, or the region. Such information helps the organization develop services that address important issues. At the Council on Foundations, regular surveys of members and tallies of telephone and letter requests provide early warning of new issues or unmet member needs. Management surveys reported in, for example, the **1990 Foundation Management Report** (Boris et al., 1990) provide a base of information around which educational programs, telephone assistance and publications are developed. These surveys are sometimes supplemented with information, for example on payout levels, from statistics compiled by the Internal Revenue Service.

Statistics are often a component of program and organizational evaluations. Nonprofits are increasingly striving to improve their efficiency and effectiveness. From evaluations of individual seminars and programs to the operation of the entire organization, nonprofits are developing feedback on how well they operate and on the impact they are having through their work. A broad base of qualitative and quantitative research on the sector would permit organizations to compare their performance with that of similar organizations.

As an organization trying to meet the needs of its members, the Council on Foundations evaluates educational seminars and major programs, like the National Agenda for Community Foundations. These evaluations are mechanisms for adjusting services and programs to make them more effective. The Council also facilitates self-evaluation by its member foundations by providing comparative information based on surveys it conducts and on data compiled by the IRS and other sources. For example, it develops comparative information on salaries and benefits and helps to make available data on foundation investment returns.

Closely related to both needs assessment and evaluation, but separated for emphasis here, is the use of data to measure public awareness of the cause, the clients or the organization itself. Many nonprofits try to inform the public about their activities through annual reports, publications, press releases, and briefings. Disseminating such information may be a form of public accountability, but public education is often an important part of the organization's mission. Rarely, however, do organizations actually know how their organization, clients or cause is perceived by the public, and thus what types of information they should be disseminating. Fairly sophisticated research, including opinion polling, is often required to answer this third question.

The Independent Sector, an umbrella organization of national nonprofit organizations, has been quite successful in attracting press attention to the nonprofit sector by using statistics compiled and reported in its publications, **Nonprofit Almanac: Dimensions of the Independent Sector,** and **Giving and Volunteering in the United States** by Virginia Hodgkinson and associates. The Council on Foundations has in the past had polls conducted and more recently has developed questions, included in the giving polls commissioned by the Independent Sector, to assess the level of awareness of and confidence in private and community foundations.

The fourth use of statistical data, to inform public policy, is the most critical and the most difficult to accomplish. Inevitably, when Congress or the Treasury has proposed a new regulation or threatened to change an existing one, there has been little or no information, the data items needed were not included on the available IRS tapes, or the accessible forms were out of date.

USING STATISTICS TO INFORM PUBLIC POLICY

Statistics on nonprofits are used in the public policy arena in two major ways: actively and reactively. In the active use of statistics, information is presented to help shape appropriate public policy and inform a reasoned exploration of the issues. While the situation is improving, the active use of data is still rare, due to the lack of reliable information. The reactive use of statistics is much more prevalent. Information must be developed, often hastily, to reveal the weaknesses of policies formulated in the absence of adequate data, or to defend against the unintended consequences of seemingly benign policies.

A major hinderance in either case is the inadequacy of existing data about the nonprofit sector. The major source of information for charitable organizations is the Internal Revenue Service Form 990 (and 990-PF). This form, designed to assess compliance with IRS regulations, not to develop statistics on nonprofit organizations, is conceptually limited. In addition, it is so complex that it is difficult for researchers to understand, as well as being a total mystery to many who must fill it out. Even knowledgeable accounting and law firms make major mistakes when completing IRS Form 990-PF for their clients. Yet, it is virtually the only source of comprehensive information on the sector and is the source of most of the data used for public policy purposes. Both the National Center for Charitable Statistics and the Foundation Center use IRS computer tapes derived from the forms.

The Foundation Center, an organization that collects and publishes information on private and community foundations, verifies the information it collects from IRS Form 990-PF and supplements it with surveys of foundations. The data elements the Center collects, however, are limited in number. The National Center for Charitable Statistics, an organization created to improve the quality of data on the broader nonprofit sector, is currently classifying the IRS data tape on nonprofits and conducting a national survey of nonprofits to improve the accuracy of IRS tapes based on the Form 990. Data on the sector has improved over the past decade, but there is still much to do.

The following examples drawn from my experiences at the Council on Foundations, illustrate the importance of data in influencing public policy.

The Private Foundation Payout Rate

There are both active and reactive aspects of the research undertaken on this issue. To place the issue in context, the 1969 Tax Reform Act required private foundations to pay out to charity each year a fluctuating percentage of their assets or all of their income, whichever was higher. Obviously, a fluctuating payout percentage based on changing market conditions played havoc with foundations' financial and program planning.

Research included in the work of the Filer Commission, which produced the first comprehensive series of studies on the nonprofit sector, resulted in a recommendation to stabilize the payout level at five percent. The payout was modified accordingly in the Tax Reform Act of 1978. Foundations were required to pay out five percent of their net assets or all of their adjusted net income, whichever was greater.

By 1981, however, statistics collected by the Foundation Center from the IRS Forms 990-PF revealed that the assets of foundations continued to decline in value, an unintended consequence of the payout requirement in an era of double digit inflation, a major recession and poor financial markets.

Graphic presentations of eroding foundation assets and an analysis by economist Peter Williamson, helped to convince Congress that change was necessary. The payout requirement was changed to a flat five percent of assets in the Economic Recovery Tax Act of 1981.

The next phase of the research on this issue was an active one. Knowing that the payout level would continue to draw congressional attention, a major study of the impact of the change in the payout requirement was undertaken so that foundations would be prepared with appropriate data when the issue next arose. An RFP was designed and Lester Salamon was selected to undertake the research which involved analysis of Form 990-PF data and supplementary surveys. The results, published in two volumes, **Managing Foundation Assets** (Salamon, 1989) and **Foundation Investment and Payout Performance: An Update** (Salamon, 1991) showed that the change in the payout level was beneficial and deserved to be continued. A flat five percent payout permitted foundations to invest more realistically. The research also showed that many smaller foundations needed assistance with their investment management. Dr. Salamon recommended that the flat five percent payout requirement be retained and that a common investment fund modeled on the one used so effectively by colleges and universities, be formed to benefit smaller foundations.

These findings had three important consequences. First, the Council on Foundations began to use the data in an active strategy to secure legislation that would permit foundations to pool investments in a common fund. Second, The Council commissioned the development of a financial model that analyzed the sustainability of a five percent payout over the long term (Trotter, 1991). The model showed that over the past fifty years a payout of about 5.5 percent, (including investment costs which are not permitted to be part of the five percent payout) is the highest amount that could be sustained without eroding the assets of foundations. It also graphically portrayed the interactions of risk, investment returns and payout levels for the benefit of foundations that appeared to be spending themselves out of existence without intending to do so. Third, investment topics assumed a more important role in the Council's educational seminars and publications.

The payout issue is complicated and it may seem like a lot of fuss over technical details, yet the survival of existing foundations hinged on changing that rule and the changes could not have been accomplished without the research that showed the harm being done. Subsequently, the results of these research projects were disseminated to foundations, Treasury officials, members of Congress and their staffs.

These studies revealed a great deal about the inadequacy of Form 990-PF for conducting research on investment returns. They also illustrated how labor-intensive it is to conduct research using items on the Form 990-PF that are not part of the data tapes that the IRS prepares. A complete data base had to be constructed from the forms. With the exception of computer tapes of detailed sample studies of foundations conducted periodically by the Statistics of Income Division of the IRS, many items collected on the Form 990-PF are not included in the computer tapes available from the IRS.

Births and Deaths of Foundations

Another example of how data is useful for public policy also arose as a result of trends that were revealed in IRS data compiled by the Foundation Center. By the early 1980s it appeared that the formation rate of new foundations had declined dramatically during the decade of the 1970s. Coupled with the erosion of foundation assets, there was growing concern about the future of philanthropic foundations. A major project was designed and Teresa Odendahl directed it from the Program on

Non-Profit Organizations at Yale University. The research was conducted by a team and included: an analysis of Foundation Center data on the "births and deaths" (John Simon's term) of foundations; a survey of existing foundations; interviews of wealthy donors and their attorneys; analyses of foundation growth patterns over time; and a study of IRS data on giving patterns of wealthy persons. These studies were reported in, **America's Wealthy and the Future of Foundations** (Odendahl(ed), 1987).

The results were multi-faceted and helped to inform both public policy and the Council's programs. The research showed that fewer foundations were formed after 1969. Many attorneys reported that they no longer recommended the formation of foundations to their clients because of the complexity of the regulations and the less favorable tax deductibility of donations. Some attorneys were uninformed about adjustments to the Tax Reform Act of 1969 that made it less burdensome. The research revealed, however, that many wealthy persons had valid reasons, unrelated to tax advantages, for creating foundations.

This information was used in efforts to simplify some aspects of existing regulations and to develop programs to inform attorneys about the current regulations and the advantages of foundations for certain types of charitable goals. A project to encourage potential donors to create private foundations and give to community foundations was an important outcome. Fortunately, this data became available in the late 1980s when the creation of private wealth increased rapidly. The formation of new foundations also accelerated during that period.

Public Reporting

An analysis of the quality of foundation reporting on Form 990-PF in the early 1980s illustrated a slightly different use of statistics. Concerned that foundations were not adequately completing their required annual forms, a team of government researchers conducted a computer analysis of the forms. Council on Foundations staff conducted a detailed parallel study. Both studies revealed very complete financial reporting and less adequate non-financial reporting. Smaller foundations were most likely to omit information. By understanding the logic of the form, however, we were able to identify a serious flaw in the computer analysis and head off potentially erroneous conclusions. The computer program was designed to count all blank spaces on the forms, whether or not a particular foundation had information to report in those spaces. Thereafter, the Council on Foundations encouraged its members to fill out the forms more carefully and indicate by NA when a space was left intentionally blank.

Grant Administrative Expense Limitation

In 1984, Congress learned that under California law, one foundation trustee legally received a sum approaching one million dollars for his foundation-related duties. As a result, Congress decided to limit the amount of grant administrative expenses that could be applied toward the required five percent payout. There were no hearings or investigations to see if a general problem might exist. When asked to provide data on the issue, the IRS reported that it did not have the appropriate information. The law was passed and the IRS was ordered to develop the information required to assess the need for the grant administrative expense limitation and report back to Congress by January 1990.

Research was undertaken on the administrative expenses of foundations so that we could identify problem areas, inform the Treasury Department study and help to interpret the results. The study looked at data for three years, 1985, 1986 and 1987. The information was first available on the 1985 IRS Forms which are filed in May 1986. but those forms are not normally available until they are processed, which may take up to a year, so we collected many forms directly from foundations. We also used Foundation Center microfiche copies of the forms, and shared forms from the Salamon study, described earlier. In addition, we conducted two surveys, did interviews and held briefings to find out what was behind the data.

The study, reported in **Leadership and Management: 1991 Spring Research Forum Working Papers** (Boris, 1991) was extraordinarily difficult to conduct. Not only was it a struggle to get the forms, but developing meaningful data was complicated and time-consuming. We had to contend with differing accounting systems and reporting conventions in the context of a form that is so complex that we kept discovering new aspects of it. The newly added sections of the 990-PF on grant administrative expenses were poorly designed, poorly understood and poorly completed.

Since the Treasury study included only data for 1985, the year the new sections were added to the form, we also analyzed data for 1986 and 1987 to see if there were major changes. There were not. Most foundations were reporting grant administrative expenses well within the .65 percent limitation. Our qualitative information permitted us to explain why smaller foundations and those with staff-intensive programs were more likely to have higher expenses. The new limitation was simply not addressing a real problem and it was not an effective way to limit excessive trustee fees. The implications of the rule, the cost to foundations and the difficulty of overseeing it, were simply not anticipated.

Fortunately, the Treasury Study also found that administrative expenses of foundations were not a problem area. The rule was permitted to sunset at the end of 1990.

As a result of that research, the Council on Foundations entered into a serious dialogue with the IRS on simplification of the Form 990-PF. As the only source of public data, it must be modified to facilitate accurate reporting. Public policy will continue to be made with or without accurate and timely data. Designing forms that facilitate clear, consistent and accurate reporting would be a big step forward.

THE FUTURE

The National Center for Charitable Statistics, the Foundation Center and others are working closely with the IRS to improve the quality of data on nonprofit organizations. In time, we should have the capacity to build the knowledge base and answer the basic questions about the sector with greater accuracy and less expenditure of time and money. But to realize those goals, the sector must support the development of the statistics and the research that will analyze and interpret them. The Nonprofit Sector Research Fund was created in 1991 to generate increased financial support for research and to make grants to the scholars and practitioners who must do the work.

Bibliography

Boris, Elizabeth. "Administrative Expenses of Private Foundations: Results of a Multi-Year Study," in **Leadership and Management: 1991 Spring Research Forum Working Papers.** Washington D.C.: Independent Sector, 1991.

_____________________et al. **1990 Foundation Management Report.** Washington D.C.: Council on Foundations, 1990.

Hodgkinson, Virginia, et al. **Giving and Volunteering in the United States.** Washington D.C.: Independent Sector, 1988 and 1990.

_________________________. **Nonprofit Almanac: Dimensions of the Independent Sector.** San Francisco: Jossey-Bass, 1992.

Odendahl, Teresa ed. **America's Wealthy and the Future of Foundations.** New York: The Foundation Center, 1987.

Salamon, Lester. **Foundation Investment and Payout Performance: An Update.** Washington D.C.: Council on Foundations, 1991.

_____________________ and Kenneth Voytek. **Managing Foundation Assets.** New York: The Foundation Center, 1989.

Trotter, Donald. **Payout Policies and Investment Planning for Foundations: A Structure for Determining a Foundation's Asset Mix.** Washington D.C.: Council on Foundations, 1991.