Giving USA 2011
Who Gave, How Much, and To Whom in 2010?

Thursday, June 23, 2011 • 12:00 to 2:00 p.m.
Hudson Institute • Betsy and Walter Stern Conference Center • 1015 15th Street, NW • Suite 600

PROGRAM AND PANEL
12:00 p.m. Welcome by Hudson Institute’s WILLIAM SCHAMBRA
12:10 Panel discussion
Patrick Rooney, The Center on Philanthropy at Indiana University
Ruth McCambridge, The Nonprofit Quarterly
Thomas Pollak, Urban Institute
Wendy McGrady, The Curtis Group
Stacy Palmer (moderator), The Chronicle of Philanthropy
1:10 Question-and-answer session
2:00 Adjournment

FURTHER INFORMATION
This transcript was edited by Kristen McIntyre. To request further information on this event or the Bradley Center, please visit our web site at http://pcr.hudson.org or send an e-mail to Kristen McIntyre at Kmcintyre@hudson.org.
WILLIAM SCHAMBRA: Good afternoon, my name is Bill Schambra and I’m the director of Hudson Institute’s Bradley Center for Philanthropy and Civic Renewal. Kristen McIntyre and I welcome you to today’s discussion of the annual report on American giving, just published several days ago by the Giving USA Foundation and its research partner, The Center on Philanthropy at Indiana University. And a special welcome to our many, I hear, live streaming viewers coming to us from the websites of the Chronicle of Philanthropy, The Nonprofit Quarterly, and The Curtis Group.

The latest Giving USA estimate covering the year 2010 is now the latest plot point in a line that stretches back over 50 years. And it’s widely acknowledged to be the most authoritative and comprehensive estimate available for giving in the United States. It is therefore a particular honor this year, actually the second year in the row, for the Bradley Center to co-sponsor today’s event with the Giving USA Foundation and Indiana’s Center on Philanthropy, in order to discuss the implication of this year’s estimate in the heart of the nation’s capital.

We’ve assembled a distinguished panel to do so. If you were here or saw the panel from last year on Giving USA at about this time, this panel will look suspiciously familiar, because it is indeed the very same panel. It includes representatives of the organizations behind the numbers. But my sole duty today is to introduce the person who will introduce the others and moderate the panel. We are proud to welcome back as our moderator for today’s panel, Stacy Palmer. As you know, in 1988, Stacy helped found the Chronicle of Philanthropy, the journal of record for the field of American philanthropy, and she’s still at the post helping to steer this distinguished journal into the digital age.

STACY PALMER: Thank you so much, everyone, for being here. And we hope that this will be a good conversation. So we will talk a lot about the numbers, but we are really looking forward to your questions, so please get them ready. As Bill mentioned, it’s very important that we are having this conversation about giving today, because certainly here in Washington and in state capitols, the conversation about just what we can do to fill all the varying needs in this country is a very difficult one to have as deficits continue apace. And the question about whether charity can fill some of those gaps is coming up very regularly. We won’t be able to settle that issue of whether charity should be filling those gaps, but I hope we’ll give you a picture of the extent to which charitable giving is able to deal with some of the needs, and just how philanthropy changes during a recession.

Certainly we’ve seen a very different picture. All of us were here last year looking at the numbers, but now we know a whole lot more than we knew before. So one of the things we are going to talk about today is just how difficult this recession has been. Perhaps what was most interesting about the news in Giving USA was not what they said about what happened this year, but what they said about what’s going to happen in the future, that we have many years in which it’s going to be very difficult for giving to rebound. I believe Patrick (Rooney) has said that it will take at least five years or so until we’ll see giving come back to the levels that we saw before the recession. And as we all know, needs are continuing to rise for many nonprofits.

We’ve been calling around to see just how people are doing in 2011, and so far most people are predicting a small increase. But they’re working harder than ever to be able to achieve that, and there is a lot of innovation and ingenuity going on, but it’s really rough out there for many nonprofit organizations. And I think it’s going to continue to be that way.

So it’s very important that we talk about the best ways for nonprofits to maximize their giving, and look also a little bit at this business of forecasting. How can we better figure out what is really going on in the world of giving and really understand what is happening with the numbers, and what is happening to various groups within the field. Because we look at one number that said giving rose 2.1 percent last year,
but what does that really mean for individual groups in various kinds of causes? So we’ll examine all of those questions, and we have a great panel here to talk to you about all those issues.

We’re going to start with the man who has the most difficult job, Patrick Rooney, of figuring out all these numbers. Because as you all know, giving data is really hard to come by. It’s ancient if it’s available, and mostly it’s not available. There is not a whole lot that we know. So this process of estimating numbers is really, really tricky.

Then Tom Pollak of The Urban Institute will talk more about numbers that he’s found. And then we’ll hear from Wendy (McGrady) and Ruth (McCambridge) about the real world pictures. So we’ll introduce each of them as they come up. Patrick, let’s hear about the numbers.

PATRICK ROONEY: Thank you Stacy and I am glad that someone acknowledged that I have the toughest job. It certainly feels like it. Giving USA has been in business since 1956, and for the last decade or so, The Center on Philanthropy has partnered with Giving USA and the Giving Institute to be its research partner. We do the research, writing, and editing in a contractual relationship, but it’s really become a partnership. And it’s a great partnership, and we’re very appreciative and honored by this partnership. We think it’s a great and important product, and we work hard to try to make it better every year.

Stacy alluded to some of the forecasting challenges in this environment, and so maybe during the Q&A we can talk about some of the methodological changes that have happened, or not, as people are interested. I’m happy to address those.

Before I start about the numbers though, every year we have a photo contest in Giving USA, and before we had a book that came out and the photo contest winner was on the cover of the book. Well now we’re giving away our results online, which is a great business model, let me tell you. That’s humor, thank you. (LAUGHTER) But we still have a photo contest. Part of this is because philanthropy is really about trying to improve the world and it is human beings trying to help other human beings. This year, this is a group of three kids who are working at computer stations in Chicago.
It is a child development center in Humble, near Chicago. And at this center, they are trying to make kids aware of the value of higher education. They start at an early age. They want to be comprehensive and have a holistic approach. And one of the things that they’ve found was that last year every high school senior who had been involved in their program for several years went on to college. They had by their benchmark a 100 percent success rate. Now, we don’t all have 100 percent success rates in the nonprofit sector, but I think it’s a feel-good story and it’s a human story, before we get into the more dispassionate numbers. So there you go.

Now the report is published by the Giving USA Foundation and was started by the AFRC, which is now called the Giving Institute, which is a leading consultant to nonprofits. One of the things about Giving USA is, as Bill (Schambra) mentioned, it is the only source that looks at all the sources and all the uses of philanthropy in every year, a long data series going back to 1956. And it is the yearbook on philanthropy. So we are very happy and proud to be affiliated with this.

This is probably the most famous pie chart about philanthropy. And this is all the sources of giving in any given year.

This was one of the more surprising pie charts to me when I came over to The Center on Philanthropy. As a faculty member, I had written proposals to foundations and corporations and I had thought about that as being philanthropy. I knew people give to their church, to their alma mater, and to their Synagogue and all that, but I hadn’t really thought about it being the main piece of the pie. So every time I see this, I kind of laugh at myself a little bit about how different this is compared to what people think about when they think about philanthropy.

Foundations and corporations do play an important role in philanthropy, but when you look at the role of individual giving last year it was 73 percent and bequest giving was 8 percent. We worked with the Foundation Center to do an estimate of how much of foundation grantmaking comes from family foundations where the family is still making decisions and it is about 45 percent. So you add up about half
of the foundation grantmaking, the charitable bequest giving, and the individual giving that’s during life, and you have 87 percent of all giving coming from individuals who are alive, who have recently passed or who are making grants out of their family foundation. So when you think about almost nine out of ten dollars is coming from individuals, you see that the role of philanthropy is really mostly about the role of individuals. That said, don’t fire your proposal writers because foundations and corporations do play an important role, 14 percent and 5 percent respectively. So you want to keep that in mind.

Where does the money go? 20 years ago, 40 years ago we would have said about half would go to religious organizations. This last year, we estimate that it was 35 percent. For those of you who are statistically inclined, it is a secular decline in religious giving. Again, a little humor. You know, I’m a data wonk. Give me a break. (LAUGHTER) Now, religious giving is not declining overall, but its share of the pie has declined because other subsectors have been growing at a faster rate. Generally over the last 40 years, religious giving has grown in most years, but it has grown at a slower rate than giving to other subsectors. So I want to point that out.

The second largest subsector is giving to education, which is at 14 percent. Education gets a majority of the large gifts. We track these gifts of a million dollars or more on our website and it’s available for free. Higher education gets about half of those million dollar gifts that are publically reported, giving to K-12 and libraries adds another 5 or 10 percent, depending on the quarter, and hospitals and arts and culture organizations get most of the rest. But education does very well when the economy is doing very well in particular, and so with the uptick in the economy, we see a little bit of an uptick in education giving.

The third largest piece is giving to foundations. Now, we haven’t always tracked this, but we’ve been doing this for the last several years. One of the reasons is because we want this to be holistic and comprehensive, and we want the numbers to add up. And the reality is that many gifts are going to either create new family foundations, or into existing family foundations and increasing the asset base. We can have a philosophical debate on whether or not that’s a good thing. But from an accounting perspective, it is important to count it. Now, personally, I think the money being deposited in family foundations and community foundations is a fine thing. Those assets become endowed and they pay off 5 percent per year. A lot of our social problems are hard, intractable problems, and they need to be addressed over time and not just in one year. But we can have a philosophical debate about that.

Going around the horn – human services is at 9 percent and health is at 8 percent. Public society benefit is 8 percent. Public society benefit is a little confusing because it includes umbrella organizations like the United Way, Jewish federations, and Catholic Charities. It is all of the umbrella groups, and it also includes donor advised funds. Many of you probably saw that Fidelity had a record year for donor advised funds. We believe that a big part of the increase that we are going to see in the public society benefit subsector is actually driven by the growth in donor advised funds. So we can unpack that a little bit more later. It’s been recommended, so I’ve duly noted, our research team will look at whether or not we ought to break out donor advised funds separately from the rest of public society benefit, and we’re going to investigate that for next year.

Arts, culture, and the humanities is at 5 percent. International is at 5 percent. Keep in mind, international, when we started tracking this in 1987, was only 1 percent of the pie. We’ve seen a very rapid growth in giving to international organizations since 1987, and an even more rapid growth since 9/11. So we can come back to that, too. Environment and animals is at 2 percent. Very rapid growth in real dollars since 1987 as well, but not as rapid as international. Gifts to individuals is 2 percent of the pie. This is mostly pharmaceutical companies giving free or deeply discounted drugs on a means-tested basis.

Unallocated is due to the fact that some individuals give more than they can legally deduct in a year. So you can only deduct 50 percent of your adjusted gross income (AGI), and if you donate more than that you
can carry it forward for up to five years, but the charity that you donate to realizes it in the year that you make the gift. Similarly, I might donate my classic Porsche and take a larger deduction for that than what you can sell it for. Net of fees, and so on and so forth. I would never take a deduction beyond what it was worth, of course, but there are these accounting differences. There are also timing differences in terms of, some reports are on fiscal years and some are on calendar years. Some donations go to charities that are too small to report to the IRS, and so we don’t capture those yet.

In the report, we report all the changes, all the rates of growth in both nominal dollars or current dollars, and in inflation-adjusted dollars. But because I’m an economist by training, and I think inflation matters, although this is a low-inflation environment, so it’s not that big of a deal, but I do think that inflation matters especially when you’re looking at trends over time. I’m only going to report the inflation-adjusted differences. So I know for those of you who are fundraisers, you probably would rather look at this in current dollars. I understand that. But this is a little language gap, and sometimes I do one way, sometimes I do the other way.

All right, look at total giving. Total giving increased 2.1 percent last year and on the first pie chart it has the total, so about $291 billion is the new increase, just under $11 billion total increase in dollar terms. It had declined 6.2 percent the year before, and the year before that it declined 7 percent in real terms. So as Stacy mentioned at the beginning, during the great recession, total philanthropy declined 13 percent in 2008-2009 in inflation-adjusted dollars. That’s the worst decline on record, significantly worse than the 1973-1975 oil-induced recession in which giving fell 9.2 percent in inflation-adjusted dollars. We don’t have data going back to the Great Depression, but during this past 50-some years, it is the worst decline on record.

I estimated that if total giving continued to grow at 2.1 percent in inflation-adjusted dollars, it would take seven years all together, six more years after this year, to get back to where we were in 2007 before the
great recession started. So peak in 2007, trough in 2009. To get back to 2007 values, if we grow at 2.1 percent, would take another six years. We are in a really challenging economy.

And I think there are some important questions. Is the glass half full or is it half empty? I think we all hope that the economy will pick up. We all know that unemployment has been falling slowly. We all know that the unemployment rate underestimates the true economic impact of the economy because of people being underemployed. Let’s face it, if you were a CEO at a bank last year, and this year you’re a greeter at Wal-Mart, you’re still counted as employed. However, you are actually underemployed, your earnings are substantially less, and it probably has a deleterious impact on your philanthropy. Similarly, if you’re working part-time involuntarily, you’re counted as employed, and yet your economic circumstances are much less than you would normally expect them to be or want them to be.

Moving on to individual giving. Individual giving grew 1.1 percent in inflation-adjusted dollars. Individual giving has really been hit the hardest by the recession. Not a big surprise considering the unemployment rate. And the offset to this is that bequest giving increased fairly dramatically. One of the things that we know is that in any given year, there is sort of a steady state of charitable bequest giving by most of us. So most of us die, we don’t leave anything. We know that. The rest of us who die and we have a will and we leave a charitable bequest in our will, that is at a steady state. Whether or not bequest giving goes up or goes down is determined almost entirely by the philanthropic bequests of the wealthiest 300 people who died in any given year. And in some years, it is determined by the five wealthiest people who died. So trying to forecast who are the wealthiest people, when they’re going to die, and how much they are going to leave in a will, is not the easiest task.

Foundation grantmaking actually fell two years ago and last year at a fairly low rate in inflation-adjusted dollars. One of the things about foundations is that they are required to pay out 5 percent of their asset base. Most foundations have a diversified portfolio, including assets in the stock market. The stock market has been growing. And so you might wonder, why do we see this decline? Most of this is because most foundations pay out on a two-year or a three-year rolling average. So they are still drawing into the average of the bad years from 2008. The good news about that is it slows the rate of decline in a recession, but it also slows the rate of increase during the recovery. We’ll work through this, the economy, and hopefully the stock market will continue to grow, and that will be more positive in the future.

Corporate giving has grown almost 22 percent in real terms in the last two years combined – fairly remarkable growth. Keep in mind that corporate giving is only 5 percent of the total giving, so it is the smallest share on the sources side. Also keep in mind that much of that corporate giving is in-kind gifts. Now, I don’t want to get into a philosophical argument about whether that is good or bad, but I will acknowledge that cash is king, or queen, depending on your perspective, in terms of its flexibility and fungibility. And that in-kind gifts are very wonderful gifts for some charities, but don’t solve all the problems that cash can solve. So that is part of it. The other part of it is that corporations right now are very profitable. They are not hiring workers at a very fast rate, but they’re sitting on a lot of cash. So they have been more generous in terms of their philanthropy in that respect. There are also other reasons for in-kind giving in terms of helping manage their inventories, helping create good will and so on, without giving up cash. And so there’s a lot going on there.

In terms of rates of growth, or the uses side of the pie, religion has actually fallen two consecutive years. Now it hasn’t fallen very much. Only 2.1 percent in inflation-adjusted dollars combined. But the fact that it has fallen at all is noteworthy and significant given the fact that normally giving to religion grows slowly in good times and grows a little more slowly in bad times, but typically it always grows. That was one of the truisms, right? So we are seeing some evidence that the Great Recession is having an impact on this. And honestly, if you were to ask someone, should you pay your mortgage or tithe, should you feed your children or tithe, probably most people would say, pay your mortgage and feed your kids. Or better yet,
feed your kids first and then pay your mortgage, but you know, tithing would come down farther on that list. So I think for some people who lost their jobs or who are working involuntarily part-time and so on, that has had a deleterious impact on giving to religion.

Education has had a little bit of a bounce-back, 3.5 percent last year, but it had fallen 5.3 percent the year before, so it is still below where it was before the Great Recession started. Human services had increased during the Great Recession. In fact, several donors said to me, and several foundations said publically, that they were reallocating their philanthropic portfolios to help house the homeless and feed the hungry during the recession. Some of our board members said to me that they were not going to give us very much money, and I never argued with them. I said I respect that, I understand that, please keep us in mind when the recession ends. So we saw a little bit of a spike in giving to human services during the Great Recession.

I think one of the more interesting and surprising results is, so immediately coming out of the recession, is that giving to human services is down 1.5 percent in inflation-adjusted dollars. Moreover, if you take out the giving to Haiti, and we estimated giving to Haiti be $1.43 billion, if you take that out, because three-fourths of that went to human services, one-fourth went to international organizations, if you take that out, giving to human organizations declined 5.6 percent in inflation-adjusted dollars. Now, why do I remember all these numbers? Because I’m a nerd. Names, terrible. Numbers, locked in.

Health declined slightly last year after having fairly robust growth. I’m going to make a prediction here, so write it down and bet me later, or however you want to do this, but you know, one of the things that we’ve seen historically is that the subsectors for which the federal government is spending more money, individuals and foundations start donating less money. Or more accurately, the rates of growth decline. So the giving tends to grow, over time, but my forecast is that giving to the health subsector is going to decline because of the Obama Healthcare. Now I’d be careful, I’m not making a political statement here. I’m making an empirical forecast based on past trends, that in the past, when health and human services have grown rapidly in terms of federal funding, giving to those subsectors has grown very slowly. And this is a very consistent trend over the last 20 years and over the last 40 years as well.

Public society benefit saw a very nice rebound this year. Again, we think most of that is due to donor advised funds. Arts and culture, again, nice rebound. International grew dramatically. And I was telling our panel before the session started, a couple of people have called me everything but a liar about this number because they just don’t believe that international could have grown so dramatically. Keep in mind, about one-fourth of total giving for international went to Haiti. Keep in mind also though, that since 9/11 giving to international organizations has grown at a much higher rate on average than giving to other subsectors. And even going back to 1987, giving to international has grown above average. We believe that following the attack on America, many Americans realized that we can no longer be “Fortress America,” isolationist, and they are being more proactive with their philanthropic dollars and reallocating a small piece, but a piece of their philanthropic pie towards international causes.

Environment and animals actually went down in inflation-adjusted dollars 2.3 percent last year. We don’t think that this is because people are losing interest in the environment. We think that a lot of this is because of the declining values in the real estate market. If you saw this study since 2006, housing values in 20 cities has fallen 33 percent – a larger percentage decline than during the Great Depression. And most housing economists will say that we have not bottomed out, by the way. That’s the bad news. Now, a lot of individuals who are giving to environmental funds, sometimes they’re giving large tracts of land to preserve the environment, and those land tracts are worth less than they would have been before the collapse in the housing market. So we think that the decline in environmental giving is largely due to the decline in land values, not to a decline in the commitment to philanthropy.
All right. Total giving over the last 40 years. The green bars show what happened to philanthropy in non-recessionary years, what happened to total giving. The blue bars show in inflation-adjusted dollars what happened to philanthropy in inflation-adjusted dollars during recessionary years. The red line is what happened in nominal dollars, or current dollars. One of the things that stands out during the Great Recession is that giving fell in a record amount in inflation-adjusted dollars, but it fell in nominal dollars, or current dollars, for the first time ever because of the business cycle. Again, I think this is an indication of the severity of the Great Recession. Now, is the glass half-full or half-empty? We can have some discussion around this. We don’t want to make a moral judgment, but I think, the fact that giving fell during the Great Recession is not a great surprise, but the fact that giving is coming back and is growing a little bit even as the economy has grown slowly is a pretty strong testimonial. One of the things that we would argue is that philanthropy remains a core American value and that $291 billion is a big number. Maybe not as big as we’d like it to be, but it is a big number. When you look at the rapid growth over the business cycles and over time, the fairly rapid growth in the last couple of decades, I think again, that is a strong commitment.

One of the things that our research has shown is that the S&P 500 is a strong predictor both of household giving, and of foundation grant-making. So when you look at the correlation between total giving and changes in the S&P, you’ll see that total giving generally moves in the same direction as changes in the S&P 500. It doesn’t go up as rapidly as the S&P 500, nor does it go down as rapidly as the S&P 500, and that is actually a good thing. If you were trying to plan and budget, it would be very difficult if our charitable receipts were as volatile as the S&P 500.

All right, here is the best news. The report is available for free online. Here is the website – GivingUSAReports.org. And I encourage you to go there and get the reports for free. I also encourage you to buy the PowerPoints and buy the deeper-dive chapters, because we have got to pay for this research. One of the other things I do want to point out is that philanthropy this year is 2 percent of the total GDP. Household giving is 1.9 percent of total household income after taxes. So I think, and I’ll leave this for the Q&A and discussion, but I think it is a good rhetorical question to ask, what is the value-added proposition the nonprofit sector would need to add to society to move us from 2 percent to 3 percent or 4 percent or 5 percent, much less 10 percent? So we are nowhere near that. We’ve been stuck at 2 percent for the last 50
years. What does it take to move us on, or are we at the optimal level of investment and philanthropy? And I think those are interesting policy questions, and interesting individual and collective decisions. The role of public policy in affecting that is something that I think may come up later during the Q&A. All right, thank you. [APPLAUSE]

STACY PALMER: Thank you so much. Next we’ll hear from Tom Pollak of the Urban Institute.

TOM POLLAK: Thank you, Stacy. Patrick, you’re a tough act to follow. Unfortunately, I don’t think I know all my numbers by heart yet. The news that there is a 3.8 percent increase in giving is certainly room for some encouragement. Modest upticks in contributions is certainly good for the sector. My primary role here today is to put those private contribution numbers in context. That context for me is the broader financial picture of the nonprofit sector. Overall, private contributions account for a little more than 12 percent of total revenues of public charities. That is our 2008 number. We don’t expect those numbers to have shifted dramatically more recently. If you exclude hospitals and higher education, we’re still looking at only around 25 percent of the total revenue.

It is important to keep in mind that the role of those private contributions varies quite dramatically by subsector. So for the arts, they account for 42 percent of total revenue. In contrast, in education they account for only 13 percent. Healthcare, the percentage is only 2.4 percent. International and environmental kind of lead the subsectors in the role that private contributions play. Sixty-three percent of total revenue for international organizations comes from private contributions, and 49 percent of the total revenue of environmental organizations comes from private contributions.

So with that in mind, what can we say about the picture of the financial health of organizations in 2010? We’re a long way from having complete data on 2010 finances, but we do have some preliminary data. And I think overall it is more or less consistent with the picture that Patrick has presented of the changes in contributions in 2010. What we have is some very basic information on approximately 25 percent of the organizations, of the public charities that we expect to file form 990s or 990 EZs in 2010. What we find overall is that all major subsectors appear to have grown in their total revenue. Generally modestly, but it really is still too early to say for sure.

The better measure that I like to use, given the preliminary nature of our data, is to look at the percentage of winners and losers among organizations that filed 990s in 2009, and those that, where we have some information in 2010. What we find overall is that there is a 2 percentage point gap in those showing major increases versus those showing major decreases in their revenue from year to year. What we find is that overall, 37 percent of the organizations reporting showed increases of 6 percent or more in revenue, compared to 38.6 percent, around 39 percent, showing declines in 2010.

Once again, we do see some variation among subsectors, but it’s not nearly as much as we see in some other statistical sets. In arts, we see that 37 percent had higher revenue compared with 43 percent having lower revenue, a 7 percentage point gap. In education, we see a 5 percentage point gap with 37 percent showing higher revenue and 41 percent lower. In environment, we also see a 5 percentage point gap with 40 percent showing higher revenue and 45 percent showing declines of 6 percent or more. Healthcare, relatively in the same ballpark, 4 percent more showed increases than decreases – 38 percent compared to 33 percent. Likewise for human services, we saw 4 percent showing increase and 4 percent more showing increases than decreases. In international, unlike the dramatic jumps in private contributions we saw in Patrick’s numbers, we actually see a relatively even spread between those showing increases and those showing decreases. Finally in the public and society benefit category, despite the increases in private contributions, we see a gap of 5 percentage points, with only 38 percent showing significant increases and 43 percent showing significant declines.
So the vitality of the nonprofit sector is to look at the creation of new organizations. Some of course would argue that the proliferation of new organizations is more of a problem than a sign of vibrancy, but that is an issue for another day. What we found is that in 2007, 43,000 public charities and 4,000 private foundations were created. In 2010, that number stood at 42,000 new organizations while the number of private foundations being created had actually plummeted to 2,500. All in all, though, I think the takeaway from this is that the number of new public charities being created continues to stay at relatively steady rates, despite a serious downturn in 2008.

So that is sort of the big picture of finances in 2010. I’m supposed to be the numbers guy, but I confess I can’t resist without closing with a few more expansive remarks on where I see the sector going. In 1982, Albert Hirschman, a noted economist, suggested that societies oscillate between periods of intense focus on private interests, with periods of focus on public goals. We in the U.S. seem to be mired in a period of intense focus on private interests spanning a number of decades now. It is interesting to look abroad at what is happening in Great Britain with the conservatives' Big Society project and their efforts to push authority and spending from the national government down to the local government level. Some people may question the motives of the conservative government, or certainly some of those who are implementing this project, but you know, I don’t think it’s too much to expect that we’ll see something like this emerge in the U.S. over the next several years. And should that occur, I think that really could be an opening for the nonprofit sector.

I think if the nonprofit sector can continue to work diligently to do good work at a local level, continue to collaborate actively in sort of place-based projects like the promise-zone neighborhoods and some recent efforts to create healthy communities, I think that really could be the beginnings of a new sort of tapping of private contributions and private energies around philanthropy in the nonprofit sectors. As Patrick said, the $64,000 question remains, what will it take to really dramatically shift the level of private support up from the levels that it has sort of remained at for decades now? I think there are some small emerging trends that I hope will continue to blossom over the next three, five, or ten years, and produce that sort of meaningful change that I think most of us hope to see. Thank you. [APPLAUSE]

STACY PALMER: Thank you so much. Now we’ll hear from somebody who actually works on the ground trying to push those numbers up every single day, Wendy McGrady, vice president of The Curtis Group.

WENDY MCGRADY: Thank you, Stacy. I’m one of those people that talks in current dollars; one of those fundraisers that Patrick (Rooney) was talking about that would prefer to see it in real numbers. So I’m going to talk in current dollars and I’m also going to talk in response to the question of whether the glass is half full or is half empty. For me, half full. So bear with me.

So giving was up 3.8 percent last year. What does that mean to you, executive director, director of development, board member trying to raise critical funds in support of your organization’s mission? After two years of significant declines in giving, is this modest increase a reason for hope? A light at the end of the tunnel? I think so, and more importantly, economic indicators which impact giving seem to support my hope. Personal consumption is up, GDP is up, and as of today, the stock market has regained 90 percent of its pre-recession value. All of these indicators bode well for a continued rebound in charitable giving.

That is the good news. The challenge for us in the trenches each day is that the rate of growth and the recovery is likely to be slow. Giving has been hit harder in the last two years than in previous recessions, so it may take us longer to recover. As Patrick said, if we adjust for inflation and if we were to continue at this rate of annual growth, it would take six more years for us to recover.
While big gains and losses in the last ten years suggest dramatic swings in giving may be the norm, history actually suggests that slow growth is the norm. In fact, it has been the 40 year trend. So we are moving in the right direction, but we are moving slowly. If you’re expecting your annual fund numbers to increase more than a few percentage points this year, it will be because of a special strategy or circumstance in your organization, and likely not the rising tide raising all ships.

As a fundraising consultant and a member of the Giving Institute, a national association of fundraising consultants which publishes Giving USA in conjunction with The Center on Philanthropy, I work every day with nonprofits trying to raise money in this challenging environment. Many nonprofits are seeing positive signs of change, but are also still digging out from the losses that have occurred over the last three years.

So what is the new normal? Some things have changed dramatically and others have remained the same. Faced with cuts in federal, state, and municipal government funding, most nonprofits are being forced to diversify revenue sources. Foundations are trying to maintain giving levels despite decreased trailing averages and smaller endowments. Corporate giving, which many assume are the obvious prospects, while showing an increase in this year’s support, remained between the 4 and 6 percent that it has been at for the last 40 years.

Individual giving is up 2.7 percent this year and continues to be the source of 87 percent of all giving. That is giving directly from individuals, from bequests, and from family foundations. As Patrick said, nine out of every ten dollars is being given by an individual. So if your development program is not focused on stewarding and cultivating individual donors, you are missing a big opportunity and I would say that you are missing the mark. In this environment, high net worth individuals are looking at giving as an investment. They have money, don’t think that they don’t. For a while there, it seemed as if appreciated securities were nonexistent. Now, appreciated securities not only exist, but they are being given. Patrick referenced Fidelity’s Charitable Gift Fund, which last year saw $1.6 billion in giving, up 42 percent from 2009. So there are appreciated securities and they are being given.

But high net worth individuals are also consolidating and focusing their giving on a few causes that are dear to them. They want to make an impact. How does your organization remain a philanthropic priority and not the one that gets deleted from the pared down list? When clients ask us what they can do to set themselves apart or remain a philanthropic priority with their donors, we talk about a few powerful fundamental components to a successful development program.

One, now more than ever it is critical that your mission and your message are clearly articulated. Do you have a written case for support that captures the heart of your mission and is a compelling case for investment? Two, are you stewarding your current donors, communicating frequently with them, connecting with them in meaningful ways? If we’re looking at the bottom line, it costs a lot less to keep and hopefully increase a current donor than it does to acquire a new donor. Do you know how your top donors define return on investment, and therefore how to best communicate your effectiveness with them?

Three, are you focused on developing your board, bringing on board members who can tell your story, give, and get major gifts? The board must provide leadership for a successful development effort. And are you providing fundraising coaching and guidance to them, and holding them accountable? Four, have you identified mid-level donors with the potential to increase their gift? A lot of times an organization thinks that it needs new prospects when it hasn’t adequately mined its donor base for existing potential.

Five, volunteerism is up to its highest level since 2003. These people who are passionate about your mission are self-identifying prospects. Have you developed an effective way to connect with them and convert them from volunteers to donors? Six, do you have a planned giving program? As Patrick said,
bequest giving saw a huge increase this year, and while it is largely unpredictable, if you’re not in the game, you won’t see the dollars. While an outright gift may not always be possible, anyone can make a planned gift, and even a simple program focusing on bequests can provide transformational gifts for your organization in the future. Remind your donors to consider including you in their estate plans and to let you know if they’ve done so, and then celebrate them and steward them wisely.

Finally, invest in your development program. We are beginning to see development positions which were frozen, open up. We’re beginning to see a willingness to invest in board training, campaign planning, and development technology. Successful development is 80 percent planning and 20 percent implementation. If you haven’t planned adequately and addressed your infrastructure needs, your annual fund campaign or major gift initiative will not be as successful as it could be.

Those organizations focused on a few basic but powerful principles can be successful. Major gifts are being given, and those organizations that are doing development the right way are receiving more of them. Giving is moving in the right direction. A 3.8 percent increase is a reason for hope. As practitioners, we have got to be a step ahead, focused on our donors, connecting with them in meaningful ways, making a sound case for investment, demonstrating impact, and honoring their commitment to us. Thank you.

STACY PALMER: Next we’ll here from Ruth McCambridge, who is the editor of The Nonprofit Quarterly, and she’s given her readers a sneak peek of some of the things that she is going to talk about today. But she promised them that we’d all really hear the real story from her today. So we’re eager to hear what you have to say, Ruth.

RUTH MCCAMBRIDGE: The real story as I know it. Well, I hope you included Huguette Clark in your estimates for the coming year. Huguette Clark died in May and she left $300 million to charity. And the charity that she left the money to is a museum that is going to be housed in a mansion that belonged to her family. Basically, that $300 million will be left to the arts. It’s a huge amount of money. And it affects the way we will see giving next year; those estimates that we’ll see from Giving USA next year.

This speaks to my point. At The Nonprofit Quarterly, we see ourselves as being very much in collaboration with our readers in terms of really understanding how are these kinds of numbers hitting the ground for nonprofit organizations? And so we constantly hear stories from them. We’ll put something out, and we’ll hear a lot of comments back about how people in the field are experiencing particular trends. Also, you know, we follow the news every day. We put out a Nonprofit Newswire, published daily, and in that newswire we follow not just private giving, but public giving.

I saw a bar graph yesterday from the Center for Policy and Budget Priorities, and basically what it showed is that the levels of deficit for states during this recession have been, last year in 2010, they were more than twice what they were at any point during the last recession. States were $191 billion in deficit last year. What that does is it gets passed down to municipalities. At the same time, we’re looking at cutbacks in federal spending. So what you have at the local level are these very real ecologies of social service organizations, of organizations that are meant to guard the health of communities and the people who live in those communities, really suffering from a lack of investment from a number of different places.

There’s not half enough respect given to nonprofit organizations for the numbers, and the numbers of transactions that they have to do to keep their budgets patched together. Even really small organizations may have two or three state or local contracts. They may be a United Way affiliate, and also have a number of foundations and individuals that they are dealing with. That is a large number of transactions for organizations that are sometimes quite small. And yet they’ve been running very hard to try to keep up.
What we saw in these numbers was very distressing to us, because as we all know, the category of human services actually deals with a lot of the areas where people are going to be served on a very local level to try to keep them out of foreclosure, or in various other ways to keep them safe. When you see that in inflation adjusted dollars there has been a 5.6 percent drop in human services giving, to us, that appears extremely serious, because that is not the only place that those organizations are, at this point, taking a hit.

So one of the different kinds of stories that we’ve been seeing a lot of lately is localities that are actually dipping into their own small reserves, or forgoing other kinds of expenditures to fund those nonprofits, whether it be the local Boys & Girls Club, or the local hospice, or other kinds of incredibly critical organizations. In Maui they forwent buying a fire truck. The fire truck that they wanted to replace this year, it’s antiquated, they know it’s not long for this world, but they decided not to buy it this year because they did not want to defund some of those critical organizations. The same is true in Raleigh, North Carolina. They dipped into their reserves this year, money that is slated for infrastructure, so that they didn’t have to cut back on those local nonprofits that are really keeping life and limb together for people.

So when we see that kind of dip in human services, what it says to us is that there is something screwy here, because what we see at the local level is an understanding of the proportional importance of attending to immediate human needs during a quite disastrous, long recession. But when we look at the overview of giving in the United States, it does not reflect the same thing. In fact, there is quite a bit of money going to large institutions that are basically still building their endowments and not as much money going into these small institutions that in fact don’t have the infrastructures to be able to do the big dollar donor development that you’re talking about. That just simply doesn’t exist in their infrastructure.

So you can say, here is a best practice, but the organization may have three staff people doing administrative work, and that is clearly beyond their reach. Besides which, philanthropic dollars are not evenly distributed across the United States. We know that in rural areas and in some states, philanthropic dollars are much less available than they are in other places. So when we hear prescriptions for how to improve your giving program, that does not apply for everybody.

Some of the other things that I think disturbed us about this Giving USA report are that, in fact, giving to foundations has gone up, but giving by foundations is still pretty depressed. It doesn’t have to be. Foundations could be giving more than that 5 percent of their rolling average. There is no reason why they can’t. I think we’re worried about the degree to which the corporate giving is really in-kind giving, and isn’t in fact spendable dollars for a nonprofit.

So there is a lot in this report that suggests to us that organizations that are providing a safety network in local communities will in fact still be suffering for quite a bit longer than other types of organizations that have larger institutional frameworks and that are capable of getting those big-dollar gifts. Patrick pointed out the arts; that there are more organizations in the arts capable of bringing in the $1 million gift than there are in any of the other sectors.

So without being a complete Debbie Downer, what I want to say is that we hear a lot from our readers about what it is that they are experiencing and how tough it is to be faced with constantly increasing need, increasing numbers of people coming to their doors, and decreasing resources at the same time. And then when we see the local United Way dipping into their reserves, or the local town dipping into their reserves, we get a real sense of what the importance of that local knowledge is about what is important in communities. To allow people to slip through the safety net at this point just feels so wrong.

I think that our interpretation of this is that there are class problems in this country that are reflected in charitable giving. That in fact, as we see the increase in the income divide overall in this country, if we look at how that is occurring, we can basically see it mirrored in nonprofit charitable giving. So that people
who give those large dollar gifts, most of the time they don’t give them to small community agencies. Only every now and then you’ll see that happen. But for the most part, you’ll see those gifts going to universities, large arts groups, and other kinds of large institutions that have preexisting social relationships with those large dollar individuals because they run in the same circles. That leaves a lot of us out in this country. There is a circulation of money at the top of the spectrum. Do we really see that as the same as the donation of money to ensure that income inequality does not have the most deleterious effects it possibly can have in this country? I don’t see it that way.

And I think it brings up some issues about whether charity is all the same? Do we need to see charitable deductions be different according to what kind of donations they are? And I’m giving Patrick his kudos, because the other day we were having a discussion about this and he said, ‘Well there is a difference between what you can see as being club giving, which is I’m giving to belong to a club. Whether it’s circulated around the local public school, the local university or the local arts organization, that’s club giving, and giving to charity, to social change and to social justice organizations are two somewhat different things.’

So if we do not begin to make these kinds of distinctions, we will continue to see these kinds of confounding figures and wonder, why don’t I see that increase in my own community? Why is there still so much of a deficit here? And here is what I think is really tough, is that boards who see that there is an increase in giving in the country are going to expect their fundraisers or their executive directors, who one of their three or four jobs is the fundraiser, to bring in that extra amount because, after all, giving has rebounded. But guess what? It’s not the same thing. There are huge differentials between fields, between geographies, and huge differentials based on social class. So we need to recognize that and be a little bit more nuanced about the way we look at these kinds of numbers.

Having said that, I am constantly impressed with the ability of Giving USA to get even anywhere near to the right numbers year after year. And thank you very much, Patrick, for laying that base. Thank you. [APPLAUSE]

STACY PALMER: Thank you. You’ve all raised so many different points that I know the audience probably has a lot of questions. I’m going to start with one practical one while you’re all getting ready to start asking questions. We have had a lot of discussion here about what it takes to increase giving, and there are a lot of public policy solutions and other things. But some of the research that has come out over the last year has actually shown that it depends on how many fundraisers you have; that the number of fundraisers seems to have something to do with giving. I wonder if both of you were involved in some of that research, if you could talk a little bit about the findings that came out from the Nonprofit Research Collaborative?

PATRICK ROONEY: One of the things that Ruth (McCambridge) mentioned was the fact that a lot of charities don’t have a fundraiser, and so they’re not well positioned to do that. One of the numbers that Kirsten Gronbjerg, who is on our faculty, found was that in Indiana it is something like 77 percent of charities have exactly zero individuals for whom fundraising is their primary job. So do the math on this. How do you raise money if you don’t have someone who is raising money for you? I think many charities underperform in the short run, and especially in the long run, because, as Wendy (McGrady) mentioned, planned giving, you’ve got to have someone in there in the long run raising the awareness of this and doing that.

So I think a key factor is that nonprofit organizations need to make that investment in development staff, and there is clearly a tension because expenditures for fundraising staff are certain and upfront, and the return on that investment is uncertain and delayed. And particularly in difficult times, it is hard to convince your board, and maybe even your CEO, that you need to have an increase in your development staff, or
even the novel idea of having a fundraiser on your staff. So I think that that is a very important part of this overall analysis, and one of the ways for organizations to prepare themselves for now and in the future, is make those investments now.

TOM POLLAK: I’ve worked with many small organizations over the years, and I tend to be skeptical of the value of simply adding a fundraiser if you don’t have the infrastructure to support that. I’ve seen so many cases of organizations losing money hiring a fundraiser and just not having the wherewithal to manage that process. What is intriguing for me these days is to see the opportunities, especially smaller organizations, to fundraise collectively. I think there are real institutional barriers for many organizations in doing that, but I think the recession provides an opportunity in that sense. Once again, especially at the neighborhood or community level, that has the greatest potential.

RUTH MCCAMBRIDGE: Well, I would tend to agree with Tom (Pollak). I think there is something to a period like this that has led many communities to look at their priorities, and to really, as communities, set priorities for the funding in those communities. I think that it’s probably very healthy, to be pushed to that, and that there probably are ways for people to establish fundraising modalities that are not single organization based.

WENDY MCGRADY: I like Tom’s comment that the recession provides an opportunity, because I think it does. We work with a lot of small nonprofits, and we’ve worked with nonprofits that have no paid staff at all, much less a paid fundraiser. So it can be done. And if you notice that list of seven things that I reeled off, only one of them costs money. When I got to the infrastructure at the end – people, technology – those sorts of things costs money. The other things – case statements, stewarding your donors, moving donors along the continuum – those kinds of things don’t. So the recession does provide an opportunity. For those organizations that do have staff, I do believe that that will produce results. But those that don’t, it is not to say it can’t be done without a paid fundraiser.

STACY PALMER: Who wants to have the first question? Back there?

Q: There is a lot of economic information in the Wall Street Journal and the Financial Times that says that increasingly the wealth of this country is concentrated in perhaps a dozen or fewer cities. And that there is very little wealth left in the suburbs or in rural areas, except for the estates of the rich. However, none of you have commented about that and it hasn’t seemed to have been a factor of analysis. So I just wondered if I missed something here, because I see it consistently in the mainstream financial press in terms of investment strategies, tax revenues and even state strategies. For instance, most of the wealth in New York State is in two counties and the city of New York. Most of the wealth in California is in the greater San Francisco and Silicon Valley areas, despite the fact that the population is in LA. Do you have any comments about that?

PATRICK ROONEY: We’ve done research for Bank of America on philanthropy among households, and you look at the tax records and at the survey results from that and there are few things that you notice very quickly. One is that it is absolutely the case that philanthropy is very democratic, small D, in the sense that two-thirds of Americans in any given year give something at all. On average, they give about $2,300 across all households. When you look at how much high net worth households give, though, it’s radically different; much higher dollar amounts, larger shares of their income and so on.

You know, income is not normally distributed, and I think sociologists and economists have chronicled the fact that income and wealth have become increasingly concentrated in the United States for quite some time. What does this mean for philanthropy, I think, is an interesting question. And I don’t think we really know. We do know that high net worth households account for a disproportionately large share of total
giving. At the same time, for many organizations, they rely on their regular people making regular gifts. And I think both are important to philanthropy, and both are important to many organizations.

Ruth raised a very interesting policy question about whether we should have differential tax deductions for different types of charity. I think that this is pointed at me maybe a little bit, in the sense that I work for a large research university, The Center for Philanthropy, and we are trying to raise a $100 million dollar endowment. We think our work is important, but one of the reasons we want to have an endowment is to increase access and affordability for our students to enter our academic program, to provide research for the sector, and so on. So I’m not going to cast ourselves as Satan for doing those things and trying to raise endowment dollars.

At the same time, I understand her concern. However, I think that it is difficult and I’ll use the example of Harvard. Harvard admits a lot of bright students, and many of them come from high-income, high net worth households, but they also have kind of a guaranteed tuition policy, and many of the other Ivy’s do too, that if you make less than, it was $50,000 a few years ago, I think now it’s $100,000, that you get to go for free. Harvard is able to do that because they have such a huge endowment. And so is that a bad thing?

I think it’s an interesting policy debate. But where do you draw the line? And who do you throw under the bus if the nonprofit sectors say, ‘Well this is serving the poor, and this is not.’? You know, many arts organizations provide some resources for indigent children to experience and learn about the arts. So I think we have to be careful from a policy perspective; what does this mean from a taxing policy and from a tax preferential treatment policy?

RUTH MCCAMBRIDGE: Can I? I really was not actually even thinking about you, Patrick. [LAUGHTER]

PATRICK ROONEY: Satan. [LAUGHTER]

RUTH MCCAMBRIDGE: In fact, I do not feel married to the idea of a differential tax policy. But I do feel like there has to be some kind of a wakeup call for philanthropy about what is right in front of its face, which is that there are communities in this country, as this gentleman pointed out, that really do not have any connection to wealth. And those communities need to be attended to at this point.

So that is really my concern – that philanthropy wake up and smell the coffee, that the recovery from this so-called recovery is happening at the higher echelons of income at this point, but it is not happening on a lot of main streets. We are not feeling it yet. And so what do you want to do? Do you want to just feed into the larger institutions of this country the same way that the economy is, or do you want to make sure that we’re trying to achieve some equity in giving?

PATRICK ROONEY: One other point on your question, is that we’ve done a number of regional studies about philanthropy and how much do people give in a city or a state, and one of the things that we’ve found is that in virtually every city, 70 to 80 percent of the total giving from foundations, corporations, and individuals in that city remains a local gift. And so when you look at an unequal distribution of income and wealth around the country, I think the answer is not going to come largely from philanthropy. Philanthropy is not primarily a redistributive tool. There are redistributive aspects to philanthropy, but I don’t think that it’s going to be the major tool if most of the giving is local. When we see a very unequal distribution geographically of income, of wealth and of need, then philanthropy is probably not the answer.

TOM POLLAK: That’s local defined as a metropolitan area, not suburbs versus urban areas. So it is complicated.
WENDY MCGRADY: But important to note that 87 percent of the giving coming from individuals who are giving because they’re people passionate about a cause, not because they’re redistributing wealth or addressing larger community or national needs. Largely, it’s because they’re passionate about what they’re passionate about.

Q: Good afternoon ladies and gentlemen. My name is Rosemary Segero and I’m the president of Hope for Tomorrow. I’m based here in Washington DC. We focus on empowering women and the homeless people here in the district. My question is, looking at what you are saying, locally here, we are fighting homelessness. Here in the district, we have so many homeless people. Who is funding and who can help us help fight homelessness and get them from shelters to housing? Because if you are funding other places and we are here, we need funding and we need organizations that are helping us here in the district.

My second question is, initially I’m from Kenya. Do you have any information about how much money is given to Africa, India or internationally? Because we have so many organizations here that say that they are giving to Africa or to organizations that are focused on Africa, but when you go on the ground, there is nothing. What are they supporting? Who gives to them? And do you follow up to know what are they doing, or do they just give the money and then forget about it? There is something wrong there. Donors should look into who is doing the work on the ground, and who is dealing with the real situation. Thank you so much for your presentation.

STACY PALMER: Who wants to take those questions?

PATRICK ROONEY: When we look at international giving, we don’t break that out by different countries or different continents. The Foundation Center does, to some degree, about foundation grantmaking, so that would be a source to look at. In terms of actual fundraising within the district or any other city for any specific cause, that’s not something that we address in our research.

TOM POLLAK: I would just mention that the Urban Institute works with the Hudson institute to produce this annual report on global philanthropy, and it does look at funds flowing overseas and to what continent, and we do capture both foundation giving as well as individual giving.

Q: I’m Mitzi Pickard of the Asia Society. My organization is an international educational arts and cultural organization. And in the last five years, although giving has gone down here in the U.S., we’ve noticed that giving has gone up from foreign individuals and foreign corporations, particularly from individuals in China and India. I don’t know if they are trying to buy the U.S. or what. They seem to be. But it’s probably because there is more wealth generated in those countries now. So my question is, Dr. Rooney, is your organization looking at overseas giving to the U.S.?

PATRICK ROONEY: So with respect to giving from overseas to the U.S., where we would capture that is in the charitable receipts from the organizations as they report to the IRS on their 990. So that would be part of the total giving. However, that is not something that we break out. Again, we just don’t have access to that kind of information about where the donor lives.

I think that there are interesting flows of funds. As Tom mentioned, this project at the Hudson Institute is trying to get at a better measure of total giving. I think it’s very difficult to capture those flows of funds because of the way that they are reported or not reported.

For many years the United States has been a major benefactor to overseas charities and overseas relief organizations, and yet now there are dollars flowing in from abroad. It’s a good thing, I think. We certainly don’t want to shut the door to that. But it’s not something we actually track separately.
Q: Hi, Bob Ottenhoff from GuideStar. I’d like the panel to talk a little bit about some of the proposals that are floating around town about tax deductions. It seems like in these times, some type of adjustments to the tax deduction may end up occurring. Some have talked about narrowing it to social intent or limiting it to certain income levels. And I’d be interested in the panel’s thoughts on which one they’d prefer and the one that they think would have the biggest impact on the nonprofit sector.

PATRICK ROONEY: So when the director of OMB came out with the proposal to raise the top marginal tax bracket to 39.6 percent, which was the status quo ante, and then to cap the top benefit for deductions for charity at 28 percent, we did a quick analysis, a relatively quick analysis by our standards, to look at what would be the proposed impact. And what we found was that of the households affected by this, those earning $250,000 or more, we estimated that their household giving would go down by 4.8 percent. So is that a lot or a little? That’s a qualitative question. But the empirical answer is 4.8 percent. The impact on total household giving is 2.1 percent.

Then the day after we came out with this white paper and put it on our website, several of the Democratic leaders cited the 2.1 percent and said, ‘See, this would have very little impact on philanthropy.’ Several Republicans came out and said, ‘Wow, philanthropy will go down 4.8 percent. This is terrible. We can’t do this.’ And one of my board members said, “Well, Patrick, isn’t this uncomfortable that both sides are citing your data for different purposes?” And I said, “Not at all. I’m just happy somebody read the damn report.” [LAUGHTER]

That said, here’s the thing. Nobody would rationally give because of taxes. That would be an irrational act. However, I’m not saying that taxes don’t have an effect. What the research shows is that taxes do have an effect on how much people give, the timing of gifts, the clustering of gifts, and sometimes in the structure of the gift. So if you use a trust, there is a tax reason that is different than if you make an outright gift of cash.

So I think taxes matter. And as Tom pointed out, many organizations have gone down in total revenue 6 percent or more. That’s fairly difficult to manage. So I don’t think we want to withdraw one of the stimuli for philanthropy. Again though, people are not giving because of taxes. Some people do think about taxes and tax policy when they do their giving, but keep in mind that two-thirds of Americans are non-itemizers. So for every dollar they donate, it costs them a dollar to give. And yet many of those non-itemizers still give. I think there is a lot of evidence that taxes don’t matter as much as we worry about, but they do in fact still matter.

Finally, one last point, David Joulfaian who is an economist at the Department of Treasury did a study following a panel study of high income households for a decade before they died and then looked at their charitable bequest giving as well. And what he found was that in every year, 20 percent of the high income households gave more than they could legally deduct that year. And over the course of the decade, the vast majority of those high income households gave more than they could legally deduct in at least one year. So both on the low end and on the high end there is prime evidence that the tax rates don’t matter for their giving. Again, I want to be careful to say, I’m an economist. I believe in the tax price elasticity of demand. I’ve seen evidence of it. It does matter. So we don’t want to withdraw that support. I think that giving would take a hit, but it would not be as calamitous as some in the sector might be concerned about.

TOM POLLAK: I would just add that we are beginning a new initiative to do more modeling of tax policies affecting the charitable sector. We have done some preliminary research looking at the impact of limiting deductibility of donations to particular types of organizations, and what struck me is the amazing difficulty of implementing any kind of lines like that within 501(c)(3) public charities. As Patrick mentioned, arts organizations may have education programs that work with low income children. And
that’s just the tip of the iceberg. The list goes on. And I think the potential for gaming those kinds of rules if they were implemented is huge. So despite my sort of gut-level sympathy for the efforts, I’m very skeptical about our ability to implement something like that.

RUTH MCCAMBRIDGE: My response would be, number one, I’m not sure if giving would take a permanent hit or if it be a temporary dip. I think there are many who believe that the dip might be temporary and that then people would forget about it and they would go back to giving. I do believe that it’s not the reason why people give. I think that because those deductions really do affect people at the higher end of the giving scale, that in fact we might see more of a hit to club type giving than to other type giving. So overall, I think that the charitable tax deduction is less important than many in the sector would have us believe. So that would be our position.

STACY PALMER: Wendy, did you want to say something?

WENDY MCGRADY: I was just going to say, think about the largest gift you’ve ever given. Was it for the tax deduction? Likely not. Did that help? Maybe. So I think we’re all in agreement that it’s not the reason you give, but certainly why take away an incentive for giving?

Q: Hi, I noticed that you did not break out civic organizations from education. Hudson, like places around Washington, such as the Center for American Progress, obviously are 503(c)(3)s but they have different missions, I’d imagine, than education. I know other monitoring services do break out civic missions. Was there ever any discussion of that? And could this happen in the future?

PATRICK ROONEY: We include those in public society benefit. Generally our rule of thumb is, if they get to be large enough, we start unpacking them. So if it’s above 1 or 2 percent of the total, we would start unpacking that. Because if you have too many pieces of the pie, it gets a little confusing. But if it got to be big enough, we would start tracking that separately.

Q: [UNINTELLIGIBLE]

PATRICK ROONEY: That’s a great question. I think charities have a moral responsibility and an ethical responsibility to always try to become as efficient as possible, to minimize the overhead costs, and to minimize the fundraising costs for a given level of service. That said, Tom and I were working on a study together for several years that looked at fundraising and overhead costs. And I think what happens is that the media perhaps, Charity Navigator and other rating agencies, sometimes overly stress the fundraising cost ratio and overhead cost ratio and so on. This creates incentives for charities to reallocate their costs so that it looks better on the 990, rather than what is actually happening.

In many cases, Tom and I did case study interviews, and we found people saying, ‘Well, we’re allocating our fundraising costs to the programs for which we raised the funds.’ So on their 990 they had zero fundraising costs, and they’re raising $5 million. Well you can’t raise $5 million and have zero fundraising costs. You know what those people are called? Liars. And that’s a harsh word, but I think that people are reacting to the environment and you’re taking good honest people, who care about the mission of their organization, and they’re trying to serve others, and in order to raise more money, they’re misstating things. And so I think that is a tension.

But I do think that in periods of economic distress, we see this in the nonprofit sector, the for-profit sector, and the government sector, that organizations all have to figure out ways to do more with less. And it’s not a fun path, I have to say. It’s not always fun because it often means getting smaller in terms of staffing in order to do more with less.
RUTH MCCAMBRIDGE: You’re asking about what organizations are actually doing on the ground to try to manage within a smaller budget? We always called it “internal capital.” People work longer hours. People are pressed to do more jobs. You lay off your fundraiser. You lay off the financial person. You contract for a smaller number of hours and do the rest yourself. I mean, you do what you have to do keep life and limb together for the organization.

I think where you start running into serious problems, and a lot of organizations have been at this point for at least a year or two, is that you’ve cut into muscle. And so you’re kind of skidding along the bottom and you can feel it, but you’re hoping that the economic upturn is going to produce something for you. And the nonprofit sector, I think, is famous for doing this. It will continue on and make it work somehow, even when times are really tough, but we do see a number of organizations also going under.

One of the interesting things, because we’re obviously talking about cash dollars here and not about other kinds of resources, but we’ve seen a number of organizations that were really depending on a professional setup, that were saved by volunteers that they basically didn’t know that they had at the ready. So that once they gave up and said, ‘We have to close down’, volunteers came forward and said, ‘Oh no you don’t.’ So that in fact, I think there may be an underutilization, in some cases, of the people around the organization as additional resources. Although again, it takes an expenditure at least of time and effort.

WENDY MCGRADY: We’ve seen across the country that cutting into muscle. And cuts where maybe cuts will have long term impacts. I mean, when you cut a fundraiser in a time where it’s more difficult to raise funds, I understand the logic behind that, but that’s going to take some time to rebound from. So the interesting thing that we have not seen is, at the beginning of this crisis there was a lot of talk about sharing services, mergers and working collaboratively, and we have seen very little of that, certainly very little on the merger front, some creative collaboration, but not as much as we frankly thought there would be.

RUTH MCCAMBRIDGE: I want to just say, we’ve actually tracked that, and we have seen quite a few mergers; and interesting kinds of mergers. I’m trying to remember where I saw this study the other day, but it was a study of either healthcare or arts institutions, and one of the points that the study made was that the institutions that were doing best in the funding rebound were institutions that had very well-developed fundraising capacities with multiple staff, etc., so that it really like, if you are able to continue to fund that capacity during a downturn, you’re actually able to catch that first wave of the rebound. But if you hadn’t done that, this was their interpretation, then you’ve put yourself in a difficult position.

I think when you’re dealing with precious dollars and an overload of people coming to your doors looking for services, defending a funding development office, when in fact it’s not producing very much and hasn’t for a year, can be very difficult. So I think again, it’s the larger organizations that were able to continue to capitalize over a difficult period that I think were able to catch the first wave of the rebound as well.

Q: As you all know, the IRS recently delisted 275,000, or revoked the 501(c)(3) numbers. Many of them were defunct, but there were thousands of branch organizations from headquarters that weren’t defunct. And they’d had a lot of warnings, but a couple of people at headquarters organizations told me that this has caused a huge problem within their organizations and they both blamed the IRS for failure of communication, or they blamed these chapter organizations for not having heeded the warnings. Chapter organizations then blamed headquarters. And so for the organizations that still are very much active and were delisted last month, who do you think holds the most responsibility?

TOM POLLAK: I have to say that the Urban Institute worked closely with the IRS on the postcard project, and from my perspective, the IRS went to great lengths to get the word out, and if you read the newspaper or watched TV at all at least since last May, it was hard not to get the word that you needed to
be registering, you needed to go file your e-postcard. So it is hard for me to be sympathetic. I mean, the IRS granted an extra six months to get those postcards in. I think that it was a very reasonable approach.

PATRICK ROONEY: To echo Tom’s point, I think that the requirements were pretty simple. So if you can’t do that, then you’re probably not really a viable organization.

STACY PALMER: We have heard a number of reports of organizations where the IRS did make some mistakes. It was a big list; sometimes the tax ID number differed from the actual name of the group and there was some confusion. We have a searchable list on our website that is really easy for you to just plug in and see whether your organization has a problem. Because regardless of who is to blame, the IRS says that you’re now defunct, so you need to do something about it.

Q: Hi, good afternoon, Danielle Foster. I work at the State Department, and I run our public-private partnerships program there. So I was very happy to see some talk on the panel about partnerships. I also co-founded a nonprofit, so I wear that hat as well. And the first thing that we did was form partnerships. But I don’t see that as much with other nonprofits. So I wondered if you had some best practices, or some great examples that you could give us, or where you’re seeing that trend going. Because I know internationally, Fortune 500 companies, governments, everyone is forming partnerships to leverage. So I just wanted to pick your brains on what you’ve seen.

PATRICK ROONEY: I think in terms of international disaster relief, for example, a lot of those organizations already have relationships with each other and with the governments. So they are collaborating in a way. They are not creating formal partnerships in terms of sharing revenue and sharing costs, but they’re collaborating in a way to get the work done. So I think there are some benefits there.

This issue of mergers and acquisitions in the nonprofit sectors is probably not occurring as often as people might have thought, but there is more experimentation happening. Can we have shared backroom operations? Can we have shared programmatic expenses? Can we have shared fundraising? And there are difficulties associated with all of them. So I think there are some benefits there.

When you look at mergers and acquisitions in the for-profit world, it’s really driven by the desire to create shareholder wealth. And there are winners and losers in the employment realm of that, but in theory, the winners ought to be the shareholder. Well in the not-for-profit sector, we don’t have stocks. We don’t have bonds. Well, we have different kind of bonds, construction bonds perhaps, but we don’t have investment bonds. So it is a different environment. We don’t have the same motivations for mergers and acquisitions or for collaboration, but we ought to have an open mind to it. It is not always the right answer, but I think we should be open-minded to it.

RUTH MCCAMBRIDGE: There are a couple of local community foundations who have made it their business to set up special funds to allow nonprofits to explore mergers. Because if you’re experiencing increased need, if you have got all of these extra duties that come from having less staff, then the merger exploration process can be fairly intensive. So actually putting money into those efforts, I think, is very wise. And I believe it’s in Cleveland, somewhere in Ohio --

TOM POLLAK: Boston Foundation ---

RUTH MCCAMBRIDGE: Boston Foundation has been, and those have really --

TOM POLLAK: That’s not been used.
RUTH MCCAMBRIDGE: Oh, the Boston Foundation hasn’t been used, but the Ohio one actually has been, and it’s produced some very impressive mergers of larger-sized organizations. I will say this, that although we haven’t seen the rapture of the baby boomers yet, people are beginning to filter out of those leadership positions. I’m looking forward to it myself. [LAUGHTER] But people are beginning to filter out of those leadership positions and that is always the best point at which to look at a possible merger or consolidation. Because the institutional identity and the leadership identity of the organization is very often what is standing in the way of looking at how to put like things together. As we’ve watched mergers roll out, very often it happens when one or the other leader is leaving or one of the leaders is very willing to step down into a lower level position.

TOM POLLAK: We’ve asked questions on surveys of nonprofit organizations about the extent to which they partner with other organizations, and I exaggerate slightly, but if you ask 100 organizations, 100 will say, ‘Yes, we partner.’

I think technology can facilitate effective collaboration, certainly at the program level. But as Ruth is saying, so much of this does boil down to culture. We certainly have seen many instances of funders pushing collaboration. I think that can be done well if there is recognition that it must be done patiently. And at the end of the day, you’ve got to develop organic relationships. You can’t just impose it quickly from outside.

WENDY MCGRADY: I agree that some of those partnerships have shown up because of the motivation to have partnerships. I also think the size and sophistication of an organization may have some bearing on its ability to strategically partner with another organization.

We do studies all the time, and funders ask us to tell them about the different organizations. Then they will say, ‘Well, how is this organization different from this one? Aren’t they both doing the same thing?’ And they are actually slightly different, but the funders want to know why they aren’t working together. Funders think collaboration, partnership is good. So that is a motivation that is out there that nonprofits have responded to, whether they’ve responded in really effective ways or not.

TOM POLLAK: I’d also mention, the Foundation Center maintains a database of effective collaborations that I believe was developed by Arizona State. I’m not sure if Indiana was part of that, and Michigan as well. I think there are around 600 examples in there.

PATRICK ROONEY: Yes, it is part of the AIM Alliance. It’s Arizona State University, Indiana University, and Grand Valley State, which is in Michigan.

Q: Hi. I’d like to talk about deficits because we’re talking about the recession. If we are looking at state dollars and at the pensions that are going to be burdening those budgets, one of my questions is, from the nonprofits’ standpoint, is that we have to change the way we think with regard to our fundraising. We should be looking at those established upper-middle class and above donors who are approaching those IRAs. I mean, you’re looking at considerable monies that can be guaranteed funding, whether it’s done quarterly, however you want to set it up.

I think one of the problems is that we’re not being creative. In Europe, they’re doing all kinds of creative, innovative things with regards to fundraising. You would think that we would be at the forefront in that regard. And secondly, we speak to the collection of wealth. Do you think that reports such as yours could impact on the feds with regard to community block grants, how they’re going to be allocated? Because I would think that there are so many grants that have been given to the same organizations, but when you look to their effectiveness and to the degree of change, it doesn’t strike a good note when you think of, it should have been a greater number.
RUTH MCCAMBRIDGE: I want to speak to that because there are some significant geographic differentials in this stuff, and even if you just look at the Social Innovation Fund, the much lauded effort of the Obama Administration to promote social innovation in the country, it missed most of the flyover states. It was really concentrated on both coasts. And last year when I was here, I remember that I talked about a similar round of grants that had gone to the community health centers that completely missed the middle of the country. I mean, do we assume that that part of the country does not exist? Or that it just doesn’t matter? I don’t know.

But when it comes to being able to look at where we should be investing, because other investments are not being made, I don’t think anyone’s doing a very good job of it right now. Particularly, I think we’ve done repeated work on rural philanthropy and how that’s just not really moving at this point. You’re not seeing increasing investments in rural areas. So I think we do have a serious distribution problem in the country, and part of that just has to do with who’s advocating, who’s connected, and etc.

PATRICK ROONEY: I think with respect to the deficits, what that really means is that if nonprofits are looking to the future, and they’re trying to think about how do they stimulate growth and fund growth within their organization, it’s just unlikely that government at any level, federal, state, and local, is going to seriously be ramping up their funding of nonprofit organization regardless of level of need. We’re in a spectral situation where I think charities are going to be facing a revenue squeeze from that direction.

RUTH MCCAMBRIDGE: But you know, a friend of mine runs an interesting organization in Memphis, Tennessee, that was designed specifically to bring in national grants, both private and public. So that I think that those kinds of efforts that really do think very carefully about how do we attract national money to this area, that people could put more effort into those kinds of combined efforts.

Q: I was thinking about what you’d said earlier about how smaller organizations might not have the capacity to properly support a fundraiser once they were able to get one. And when the woman who works for the Women’s Empowerment Organization in DC asked about how they can tap into fundraising opportunities in the district, you jokingly suggested that they hire Wendy. I’m just wondering, is there a difference between having a consultant and actually hiring a full-time person? And what kind of support is necessary to ensure in a smaller organization that a fundraiser can be successful?

WENDY MCGRADY: That’s a couple of questions. But first, yes, there is a difference. We as fundraising consultants cannot go raise the money for you. We can help you with strategy. We can help you with guidance. We can help you with coaching, training, whatever it takes, but we’re not your hired gun. So there is a difference in having someone in-house who’s doing that, and hiring counsel for your development program. And I’ve forgotten the second part of the question now.

The leadership of the organization being intent and invested in your fundraising program is probably the biggest challenge and the biggest support of a person in that position. If the leadership of the organization, both staff and board, are not invested in the fundraising process, it’s really difficult for that one or two people to make it successful. So I would say the board, probably, first.

Don’t hire someone to do your fundraising if you’re not prepared to support that person with the resources that it’s going to take to be successful. I’m not talking about a great deal additional money, but there are some things that you probably are going to need to invest in, in addition to that person, to be able to make a go and be able to be successful, not just to be out there bringing in modest dollars. If you want that person to really make a difference, then there’s going to be some investment in addition to compensation with that individual.
RUTH MCCAMBRIDGE: I think that we assume that everything is vested either in a consultant or a staff person. There is something to be said to really understanding as a whole organization that everybody in that organization is responsible for making sure that the funds are raised, not just in the organization, but around it. If you’re thinking that everybody that you come into contact with is an advocate for the organization in some way, you’re going to interact with them differently. You’re going to mobilize them differently. There’s something to be said for being a very engaging organization where you’ve engaged people to the extent that they will actually go out and speak for you. That they will sing your praises in a way that everybody can hear. It’s a very, very powerful fundraising tactic.

So I would say, don’t just think about a single person with the skills, think about mobilizing the entire organization to capture the attention of the community and outside of the community that you’re practicing in. Because that’s the way that people really actually get traction on fundraising in a lot of cases. The internal capacity is important as well, but really creating the advocates all around the organization is critical.

WENDY MCGRADY: That also goes to the volunteers that I talked about earlier, and volunteerism being, how are you engaging those volunteers? Are they out spreading the word about your organization? But in the end, make sure you have somebody who’s willing to ask, and if it comes down to it, typically that is your staff person or that's your leadership responsible for fundraising.

STACY PALMER: Thank you. And I think that that has been one of the lessons, certainly of the recession, is that everyone’s a fundraiser these days, and everybody’s responsible for it. But Ruth talked about singing praises, and I want to sing the praises of this panel and of all of you for these excellent questions. Thank you very much for participating in a great conversation today. [APPLAUSE]