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NEWS RELEASE

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NONPROFITS FACE BIG CHALLENGES AND BIG OPPORTUNITIES

Nonprofits groups in North Carolina, despite the diversity of interests they represent, face a number of common challenges and opportunities, according to a new report by the N.C. Center for Public Policy Research. The analysis by Ran Coble, executive director of the Center, discusses the changing relationships among the nonprofit, government, and business sectors.

"For the first time, nonprofits are recognizing that they are a sector like the government and business sectors," Coble says in the November issue of *North Carolina Insight*, the Center's magazine. "Nonprofits no longer think of their peers solely as other day-care centers, hospices, United Ways, and Salvation Armies. Their peers are all other nonprofits."

North Carolina has more than 25,000 tax-exempt organizations. Of those groups, 14,252 qualify -- in the language of the tax code -- as 501(c)(3) groups, which must have religious, educational, charitable, scientific, literary, or cultural purposes. "When most people think of nonprofits," Coble says, "they've usually got 501(c)(3) groups in mind."

Most of these 501(c)(3) nonprofits are small organizations. More than 86 percent of them have budgets under $100,000 and half have budgets under $25,000. Only 14 percent have budgets over $100,000. North Carolina -- the 10th most populous state -- ranks 12th among the states in the number of 501(c)(3) organizations, according to Independent Sector, a group based in Washington, D.C. that represents the nonprofit sector nationally.

The Center's report focuses on trends and public policy challenges facing these 501(c)(3) nonprofits. According to Coble, key challenges facing the nonprofit sector include:

* ripple effects from government cutbacks;
* government proposals to tax or further regulate nonprofits;
* scandals affecting a few organizations or their leaders;
* public perceptions about the tax-exempt status of nonprofits;
* criticisms from businesses that perceive competition from nonprofits; and
* efforts to limit nonprofits' right to lobby and advocate for their causes.

But the future also holds a number of opportunities for nonprofits, Coble says. These include:

* increased clout by nonprofits acting together as a sector;
* greater recognition by North Carolina's governor and by other government officials;
* new state legislation designed to increase charitable giving and reduce red tape;

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* new technologies that could improve communication, efficiency, and fundraising efforts;
* growing research efforts dealing with the nonprofit sector;
* potential new sources of funding for nonprofits; and
* a reservoir of public trust in nonprofits.

Funding Challenges Facing Nonprofits

One of the key challenges shared by nonprofits is the prospect of dealing with cutbacks in government funding. Nationwide, charities receive nearly a third (29 percent) of their revenues from government sources. Private contributions account for 19 percent of nonprofit revenues, with another 52 percent coming from dues, fees, and other sources.

Federal budget cuts are most likely to affect three types of nonprofits, according to Dan Gerlach of the N.C. Budget and Tax Center. These include: groups that are direct recipients of federal funds, such as hospitals and other health care institutions that depend heavily on Medicaid, and programs dealing with nutrition, housing, homeless assistance, and teenage pregnancy; organizations whose service levels or client loads are affected by federal cutbacks, such as substance abuse programs, domestic violence centers, child-care agencies, and housing groups; and foundations, which will see increased grant applications from nonprofits seeking to offset government cutbacks.

Foundations are highly unlikely to be able make up for all the cutbacks in federal funding, Coble says, because the projected cuts greatly exceed the amount foundations have to give away in North Carolina. For example, North Carolina foundations gave away a total of $220 million in 1992, but the state is expected to lose $297 million in federal Medicaid cuts alone by 1999. Plus, federal cutbacks could cause a ripple effect, leading to less funding from the state and local governments.

Some state and local governments even are starting to look at nonprofits as potential sources of tax revenue. In theory, government gives tax exemptions to nonprofits in exchange for such groups providing some benefit or service to the public. But some lawmakers in other states, such as Pennsylvania, are starting to question whether nonprofits are keeping their part of the bargain -- by engaging in profit-making ventures or not providing public benefits.

Government officials create additional pressures when they cut back on services -- such as programs for the needy -- and then expect nonprofit organizations to pick up the slack. Nonprofits can't simply raise fees to provide additional services because their clients often can't afford to pay, as for example at Salvation Armies, homeless shelters, or shelters for battered women. Plus, nonprofits face criticisms from businesses when they try to generate more revenues.

"On one hand," Coble says, "the government has cut funds to nonprofits, but then asks nonprofits to serve more clients. That's a mixed message. Another mixed message is when business people on nonprofit boards urge the nonprofits to be more businesslike and charge for services, but then others complain of unfair competition when nonprofits try to sell their products or services."

Legal Issues Facing Nonprofits

The nonprofit sector also faces a number of legal challenges dealing with such issues as taxation, lobbying, nonprofit incorporation, and solicitation licensing. At the heart of these challenges are new questions about what kinds of groups should qualify as nonprofits.

"This movement is fed partly by a few scandals in the nonprofit sector," Coble says, "and partly by those who believe that nonprofits shouldn't be allowed to lobby."

Dealing with bad apples and imposters is one of the toughest issues facing the nonprofit sector, which has faced some well-publicized scandals in recent years. The most serious of these problems involved the national United Way, whose former president, William Aramony, was convicted of 25 counts of fraud, tax evasion, conspiracy, and money laundering.

Such scandals have hurt the public image of nonprofits. The public also may be confused about what nonprofits are. The roster of nonprofits includes many groups -- such as trade associations, country clubs, and athletic associations -- that do not fit most people's notion of charities. Yet they all qualify as tax exempt under various IRS rules.

"The public has a legitimate right to question the mix of public purposes vs. the private industry benefit in these groups," Coble says. "These are tough calls, and there's no simple answer. But nonprofits need to be diligent in explaining nonprofit status when there is a legitimate public purpose and tightening up the sector when there's too much private purpose."

A final legal challenge concerns congressional efforts to limit advocacy by nonprofits. Bills introduced in the last Congress would have barred federal funding or tax-exempt status to nonprofits that engaged in more than minimal lobbying. Nonprofits criticize such efforts as violating their right of free speech and their independence and as unwise attempts to limit advocacy on behalf of the poor, disabled, and the elderly.

Opportunities for the Nonprofit Sector

Nonprofits also stand to benefit from a number of opportunities, including the growing recognition among nonprofits that they are a sector, like government or business. Exemplifying this trend was the 1990 formation of the N.C. Center for Nonprofits, the first organization representing the nonprofit sector statewide in North Carolina. The sector also is now being served by a statewide newspaper, *The Philanthropy Journal of North Carolina*, begun in 1993.

"This strength in numbers gives nonprofits a voice in all of North Carolina's 100 counties, with every legislator and every county commissioner," Coble says. "It also gives them the power to ask for nonprofit representatives on state and local boards and commissions in the same way that the business sector is represented."

Another opportunity has been provided by Gov. Jim Hunt's recognition of the nonprofit sector. Hunt was the nation's first governor to call a summit with nonprofit groups, held just after his inauguration in January 1993. The governor has appointed nonprofit liaisons in all nine departments under his control and named nonprofit leaders to some state boards and commissions. Also several of Hunt's major initiatives -- including his Smart Start child-care program and his Support Our Students (SOS) after-school, crime-prevention program -- involve partnerships between state government and nonprofits.

The N.C. General Assembly created another opportunity through the establishment of a legislative panel studying relations between nonprofits and state government. That study commission, chaired by Rep. Ed McMahan (R-Mecklenburg), recommended legislation designed to increase charitable giving and reduce red tape for nonprofits. Those bills were enacted by the 1996 legislature.

A fourth opportunity for nonprofits arises from the potential of new technology. Technologies such as electronic mail, fax machines, and computer networks have provided nonprofits with unprecedented ways for communicating, obtaining information, and raising funds.

"The nonprofit sector is service-oriented and labor-intensive," Coble says. "Thus, technology that can save time holds particular promise for the people sector."

Another new opportunity is the development of research capacity within the nonprofit sector. In North Carolina alone, at least six colleges and universities -- including UNC-Chapel Hill, Duke, UNC-Greensboro, UNC-Charlotte, and Meredith and Salem colleges -- have established programs on nonprofit management, administration, or leadership. Nationally, there are about 75 graduate-level and 40 undergraduate programs that focus on nonprofits.

A sixth opportunity for nonprofits is perhaps a surprising one -- new sources of money. These new sources include: the expansion of giving options through the United Way and other workplace giving programs; the creation of alternative foundations supporting non-traditional causes; and the transfer of wealth from elderly Americans to their children and grandchildren, with the largest generational shift in our nation's history just beginning.

The final opportunity for nonprofits is the challenge to solidify and build the public's trust in the sector. Opinion polls show that, despite recent scandals involving some organizations, the public's faith in nonprofits remains high.

"Compared to the government and business sectors, the nonprofit community has a deep reservoir of trust with the public," Coble says. "Various types of nonprofits trail only small businesses and the military in surveys gauging the public's level of confidence in different types of institutions. The public has more confidence in such nonprofits than in the news media, organized labor, major corporations, Congress, and local, state, and federal governments."

The N.C. Center for Public Policy Research is an independent, nonpartisan, 501(c)(3) nonprofit corporation created to study public policy issues in North Carolina and evaluate state government programs. The Center receives major grant support from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, both in Winston-Salem. Other funding comes from 14 private foundations, 190 corporate contributors, and more than 900 individual and organizational members.

In addition to *North Carolina Insight* magazine, the Center publishes book-length research reports. Recent reports include *North Carolina Focus*, an anthology on state government, politics, and policy, and *Article II*, a citizens' guide to the N.C. General Assembly. Other recent studies by the Center have examined the changing relationship between state and local governments, school choice, minority health, and the North Carolina Railroad.

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Copies of the November issue of *Insight* magazine containing the article on nonprofits in North Carolina can be obtained from the Center for $8 plus $3.50 for postage, handling, and sales tax. To order, call (919) 832-2839, fax to (919) 832-2847, write to the N.C. Center for Public Policy Research at P.O. Box 430, Raleigh, NC 27602, or visit its Website at http://www.nando.net/insider/nccppr.

Table 1. Categories of Nonprofit Tax-Exempt Organizations by Type

Section of the U.S. Internal Revenue Code	Description	Number of Groups in North Carolina
501(c)(1)	Corporations originated under Act of Congress, including Federal Credit Unions. These are considered instrumentalities of the United States.	0
501(c)(2)	Title-holding corporation for a tax-exempt organization.	40
501(c)(3)	Religious, educational, charitable, scientific, and literary organizations, and those testing for public safety, fostering certain national or international sports competitions, or working to prevent cruelty to children or animals. Includes private foundations.	14,252
501(c)(4)	Civic leagues, social welfare organizations, local associations of employees. These are organizations promoting community welfare, charitable, educational, or recreational activities.	3,430
501(c)(5)	Labor, agricultural, horticultural organizations. These are educational or instructive groups whose purposes include improving conditions of work, products, and efficiency.	919
501(c)(6)	Business leagues, chambers of commerce, real estate boards, etc., formed to improve conditions in one or more lines of business.	1,674
501(c)(7)	Social and recreational clubs which provide pleasure, recreation, and social activities.	1,356
501(c)(8)	Fraternal beneficiary societies and associations, with lodges providing for payment of life, sickness, accident, or other benefits to members.	1,806
501(c)(9)	Voluntary employees' beneficiary associations — including federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10) — providing payment of life, sickness, accident, or other benefits to members.	261
501(c)(10)	Domestic fraternal societies and associations—lodges devoting their net earnings to charitable, fraternal, and other specified purposes. No life, sickness, or accident benefits to members.	225

Table 1, *continued*

Section of the U.S. Internal Revenue Code	Description	Number of Groups in North Carolina
501(c)(11)	Teachers' retirement fund associations.	0
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, etc. These are groups with activities similar to those implied by the descriptions of class of organizations beneficial to members.	85
501(c)(13)	Cemetery companies, providing burial and incidental activities for members.	129
501(c)(14)	State-chartered credit unions, mutual reserve funds, offering loans to members. (Exemption for building and loan associations and cooperative banks repealed by Revenue Act of 1951, affecting all years thereafter.)	143
501(c)(15)	Mutual insurance companies or associations, providing insurance to members substantially at cost (limited to organizations with gross income of $150,000 or less.)	187
501(c)(16)	Cooperative organizations to finance crop operations, in conjunction with activities of marketing or purchasing associations.	0
501(c)(17)	Supplemental unemployment benefit trusts, providing payments of supplemental unemployment compensation benefits.	3
501(c)(18)	Employee-funded pension trusts, providing benefits under a pension plan funded by employees, created before June 25, 1959.	0
501(c)(19)	Post or organization of war veterans.	554
501(c)(20)	Trusts for prepaid group legal services, as part of a qualified group legal service plan or plans. Applicable to taxable years beginning after December 31, 1977.	0
501(c)(21)	Black lung trusts, satisfying claims for compensation under Black Lung Acts.	0

Source: National Center for Charitable Statistics, Washington, D.C., from IRS Exempt Organizations Business Master File, September 1995.

Table 4. Income, Employment, and Earnings in the Nonprofit, Business, and Government Sectors in the United States, 1994

Sector	National Income (In Billions)	Percent of Total Income	Estimated Employment (In Thousands)	Percent of Total Employment	Total Worker Earnings (In Billions)	Percent of Total Earnings
Business	$4,361.7	78.0%	101,290	70.8%	$2,940.8	74.9%
Government	842.2	15.1	25,443	17.8	646.4	16.5
Nonprofit	387.4	6.9	16,375*	11.4	336.6	8.6
TOTAL	$5,591.3	100.0%	143,108.0	100.0%	$3,923.8	100.0%

Source: Virginia Hodgkinson and Murray Weitzman, *Nonprofit Almanac, 1996–1997*, Independent Sector, Jossey-Bass Publishers, San Francisco, Table 1.4 on p. 40, Table 1.6 on p. 44, and Table 1.7 on p. 45.

* *Note:* Of the 16.4 million nonprofit employees, 6.0 million are volunteers.