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Charitable Nonprofits in the West and Their Implications for Public Policy

Abstract: In the West, several distinctive features of the region's development and culture affect the size, scope, and evolution of the nonprofit sector. In this article, I provide information about our understanding of the existence, the current size and scope of charitable nonprofits in the West, and their importance in the public policy arena. I begin by discussing the theoretical foundations of the sector and its role in the policy process. I then describe the regional dimensions of the nonprofit sector in the Mountain West and Pacific West including the density of the sector, the types of organizations in the sector, and revenue distributions. Finally, I discuss the implications of the nonprofits in the West for public policies.

Keywords: advocacy; nonprofit; public charities.

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Rarely would one include an environmental scan of the charitable nonprofit organizations in the region when considering the important elements of public policy.¹ It is time to reconsider this stance. In all regions of the country, charities are increasingly involved in public policy as advocates and providers. The growth in the sector over the past two decades is unprecedented (Roeger et al. 2012) and the level of professionalization in charities is also at its highest historical level (Hwang and Powell 2009).

Charitable nonprofits serve democracy by advocating on behalf of under-represented portions of the population (Berry 2003). Increased education and professional development in the sector have made charity leaders more aware of the many ways the organization may access the policy process. Approximately 20%

¹ For the purposes of this analysis, only those nonprofit corporations that have been granted public charity tax exempt status will be considered and the terms “nonprofit” and “charity” will be used interchangeably.

of charities regularly choose to engage in policy subsystems across all branches of government.

“Nonprofit organizations have moved closer to the center of policy concerns. Policy makers in a wide assortment of different settings have discovered the nonprofit sector and made it a focus of policy initiatives and policy debates” (Anheier and Salamon 2006, p. 89). The interdependence between nonprofits and governments continues to increase. “. . . Partly as a consequence, and partly as a cause, of this increased policy interest, the scope and scale of this sector have grown massively” (Anheier and Salamon, p. 89).

It is important for policy makers to understand the role of charitable nonprofits in the policy process for several reasons. First, governments regulate nonprofits, primarily through federal tax code and state statute. Understanding the reasons nonprofits exist as well as the scope of the sector in the region is necessary if those who develop the policies that regulate the sector are to anticipate the policy effects. Second, a better understanding of the scope and role of the nonprofit sector will improve the ability of governments to establish and monitor measures of accountability for nonprofit contractors. Finally, many more charities are choosing to participate in the policy process and government officials must understand the nature of a sector that is increasingly involved in government work.

Overall, laws regulating charities are relatively weak and prohibit behaviors rather than prescribe permitted actions (Brody 2006). Substantive nonprofit law is most often made at the state level and relies primarily on a system of self-governance. Historically, even the threat of government modification of this self-regulatory system has caused nonprofits to change their behavior.

In the 1990s nonprofits increased education within the sector around charity lobbying following a congressional proposal, known as the Istook amendment,² which sought to strictly limit or eliminate charity lobbying (Berry). In the 2000s, the nonprofit sector responded to proposals put forth by Sen. Grassley (R-Iowa) in the Finance Committee by forming a panel of experts who proposed a path to increased self-regulation rather than additional oversight from Congress (Panel on the Nonprofit Sector 2005).

Nonprofits are increasingly a force in both the political and economic environment of most communities and regions of the US. Despite their growing importance, no research has been done on the regional aspects of nonprofits in the US. Some

² The sponsors succeeded in attaching a fully-developed version of the draft as an amendment to H.R. 2127, the Departments of Labor, Health, and Human Services, and Education and Related Agencies Appropriations Act of 1996, as Title VI, Section 601 (a)(1), and 601(c)(1) *Political Advocacy: Prohibition on the Use of Federal Funds for Political Advocacy*.

researchers have extensively examined the sector within one state (Grønbjerg 2001; Grønbjerg 2002 and Paarlberg 2002), across nations (e.g., James 1987) and among metropolitan areas (Bielfeld 2000). Although there are certainly peculiarities associated with a particular city or state, the regional associations are also influential.

In the West, several distinctive features of the region's development and culture affect the size, scope, and evolution of the nonprofit sector. Throughout the western region of the US, there are vast stretches of land and relatively small populations. Water concerns have led the majority of the population to live in metropolitan areas. Despite that, the individualistic, self-reliant frontier tradition continues to be embraced by many westerners.

In this article, I provide information about our understanding of the existence, the current size and scope of charitable nonprofits in the West, and their importance in the public policy arena. I begin by discussing the theoretical foundations of the sector and its role in the policy process. I then describe the regional dimensions of the nonprofit sector in the Mountain West and Pacific West including the density of the sector, the types of organizations in the sector, and revenue distributions. Finally, I discuss the implications of the nonprofits in the West for public policies.

1 What Explains Nonprofit Formation in Communities?

Many theorists have attempted to explain why nonprofits exist and several have addressed why some communities have many nonprofits and others have relatively few. Within this body of literature, theories fall into three groups (Grønbjerg and Paarlberg 2001), (1) those that suggest *demand* in the community causes nonprofits to form, (2) those that suggest that the *supply*, or availability of financial and human resources, will lead to the formation of more nonprofits, and (3) those that suggest the *community structure*, including factors such as religiosity, explain nonprofit formation and density.

Demand theories suggest that unmet needs for a type of good or service lead to the formation of nonprofits. In particular, the government failure theory suggests that as a government works to meet the needs of its citizens, the value of equity causes it to devote its limited resources only to those programs that meet the needs of the most at risk and the greatest proportion of the population (Weisbrod 1988). The theory of market failure suggests that for-profit firms will only create programs when the firm is able to make a profit from the provision of that service (Hansmann 1987).

This theory also asserts that in situations of information asymmetry, the consumer may prefer to purchase services from a nonprofit organization. If services are complex, or the purchaser is infirm, trust in the provider is deemed more important than price. As market failures and government failures emerge, the needs of minority groups within a population who are unable to pay a market price for services will go unmet. As unmet needs become evident, an entrepreneur or a patron will form a nonprofit in order to fill this gap. Demand theories suggest that community diversity will lead to the creation of more nonprofits, as organizations form to meet the specialized needs and desires of particular groups within the community. For example, as the Latino population within an area increases, new nonprofits equipped to meet their distinct needs will emerge.

Supply side theorists have a different explanation for nonprofit creation. These theorists suggest that the resources of the community foster the development of nonprofits, and that ample financial resources and adequate supply of human resources lead to the creation of additional nonprofits. More recently, this phenomenon has been observed in the creation of community foundations. When a large foundation within a state makes available matching grants to help fund the creation of community foundations, as occurred with the Lily Foundation in Indiana during the 1990s, new nonprofits are founded throughout the state.

Financial resources are often defined as the dollar-level of private support in the form of foundation, corporate, and individual giving. In addition, the availability of government grants and contracts has been shown to facilitate the development of some nonprofits (Smith and Lipsky 1993). The presence of diverse government funds is expected to promote the development and growth of the charitable sector in an area. Governments are continually diversifying the tools they use to govern and the corresponding support for nonprofits has taken on new forms (Smith and Grønberg 2006). In Salt Lake City, for instance, in the 2000s public bonds were issued to support capital improvements benefiting local charities including the children's museum, Discovery Gateway (Dethman 2008), and the family science museum, The Leonardo (Falk 2009).

Supply side theories value the contributions of founders and professional staff. Interest group scholars have long asserted (e.g., Salisbury 1969) that the emergence of a visionary entrepreneur facilitates the creation of new groups or organizations. This sort of leader will encourage the participation of volunteers and generate interest among potential funders. The passion of the entrepreneurial leader and the initial board is the driving force behind nonprofits in the founding stage of development (Wood 1992). Supply theories also suggest that a well-educated population leads to development of additional nonprofits. As the percentage of college-educated people in the population increases, the number of nonprofits in the community tends to increase (Grønberg and Paarlberg 2001).

The third group of theories emphasizes community structure. They suggest that the economy, political culture and social capital in an area affect the size and nature of the nonprofit sector. Small stable communities have active citizens who share high levels of trust and this social capital facilitates the formation of new nonprofits (Putnam 1993; Gamm and Putnam 1999; Skocpol et al. 2000). In other larger or newer communities, economic growth and an increased level of political engagement can substitute for the stability and trust needed to promote the creation of nonprofits.

The community structure theory also suggests that the age and professionalization of the nonprofit sector in an area will affect the density of nonprofit organizations in the future, as a well-established sector can foster the development of new organizations. Well-established organizations may serve as an incubator for new programs that may eventually spin off to become separate nonprofit groups.

2 The Role of Nonprofits in the Policy Process

The US has long handled its community problems largely through the work of voluntary associations (Toqueville 1835; Hall 1992). The nonprofit sector remains best known for its social services. Throughout history, however, voluntary associations have also played a vital role in the preservation of democracy. Toqueville noted the importance of civil associations in training people in skills such as letter writing, giving speeches, running meetings, and organizing.

Voluntary associations may draw attention to minority needs that are often overlooked by the majority (Douglas 1987). In essence, nonprofits are the groups representing the interests of those least represented in our pluralist democracy. Although homebuilders and drug manufacturers and cities and towns have the financial resources and the political clout to have their national associations represent their interests to the federal government – the representation of people with disabilities and homeless youth is taken up by the local public charities. These groups at the local level are often the only voice of the underserved. Nonprofits are increasingly taking up these roles and attempting to influence governments in both direct and indirect ways.

Charities may give voice to the under-represented in our political system using direct political participation tactics (Berry) by lobbying legislative bodies, influencing the decisions of public administrators, or participating in court cases (Basinger 2003). Legislators value the information provided by charitable nonprofit lobbyists. It is information unencumbered by the profit motive that represents a clear perspective based on the mission of the nonprofit.

Nonprofit representatives and constituents may testify at a hearing or meet with legislators individually to provide input on a pending bill. Although there are significant limitations on lobbying by charities, these activities are allowed as long as they are not a “substantial” portion of the organization’s work [U.S.A.C. Title 26, Section 501(c)(3)]. In the West, there are few additional limitations on state level lobbying by charities. In most states, the only requirement is that individuals representing charities as lobbyists must register as such with the state (Hrebmar and Thomas 1987).

Administrators will often receive input from nonprofits as new policies are implemented. As governments reach out to contractors, advisory boards, and the like to create and implement policy, public charities play increasingly important roles within these networks. Within some agencies, formal avenues for public input during the policy formation stage are in place. For example, a nonprofit organization representative may hold a seat on an advisory board to the Governor’s Council on Developmental Disabilities that makes policy recommendations on disability policy for a state.

Nonprofits continue to contract with governments at all levels to provide many important services, especially in the social welfare and health fields. In their role as pseudo-street level bureaucrats (Smith and Lipsky 1993) therefore, they make many choices that influence the implementation of public policies in these areas. Finally, as budgets are prepared nonprofit leaders and public administrators may work together to ensure that people in the community are served adequately.

The third branch of government has also been an access point for nonprofit influence on policy outcomes. Approximately 20% of large nonprofit charities are involved in court cases that determine changes in public policy (Basinger 2003). The work of NAACP-LDF on *Brown v. Board of Education* is certainly best known in this regard, but charities remain involved in the courts today. For example, charities participated in over 50 cases during the 1990s following the passage of the Americans with Disabilities Act to force its implementation with various regions of the country.

Nonprofit charities also advocate through indirect means to promote choice within government funded programs, build civil society, increase access to the political process, and improve quality of life. Arts, cultural, and humanities organizations are often thought to improve the quality of life for adults in a community as well. Without charities, these types of organizations might not exist; 90% of all symphony orchestras and opera companies in the US are public charities.

Charities build social capital by providing opportunities for people to engage in their community. They may call on members and the public to participate in

grassroots lobbying by asking those who care about a particular cause to contact their legislator to discuss their feelings. Public awareness campaigns by charities may include appearing in local media to explain their policy preferences. Nonprofits also build social connections among community members by engaging volunteers in various tasks. When mothers become leaders of Girl Scout troops, they are required to complete many hours of training to learn and improve skills for teaching children, building teams, and safely leading camping expeditions. These volunteer experiences cause people to be more connected to their communities in ways that increase both civic and political participation and improves policy outcomes (Putnam 1993; Verba et al. 1995; Skocpol et al. 2000).

Finally, policy makers should understand the role of nonprofits in the economy. They often attract significant funds from federal government and foundation sources outside a state to fund services within a state or region. A sizeable proportion of state production comes from the nonprofit, on average between 8% and 12%. Finally, nonprofits are employing an increasing proportion of the workforce. In 2010 nonprofits paid \$587.6 billion in wages (Roeger et al. 2012). These economic contributions help shape the broader policy environment.

As discussed above, empirical investigations of theories explaining the formation of nonprofits have focused within one state, across countries, or across metropolitan areas. The narrow focus of the data has yielded inconsistent findings, offering limited support within each group of theories. The regional examination in this chapter provides an opportunity for broader examination of the features explaining the density and breadth of nonprofit charities.

3 Charities in the West

The western US has several distinctive characteristics. The West includes both the state with the most public charities, California, and the state with the fewest charities, Wyoming. The region includes the state with the lowest density of charities (the number of charities per 10,000 residents), the lowest reported expenses per resident, and the lowest assets per resident – Nevada. The variety in the charitable sector in this region of the country is startling. In addition the sector is expanding rapidly. From 2000 to 2010 the West region had the greatest growth in the nation, in terms of charity revenues (106%), public charity support (108%), charity expenses (117% overall and 71% after adjusting for inflation), total charity assets (104%), and net assets (93% overall and 53% inflation-adjusted increase) (Roeger et al. 2012).

This growth in the sector will have several broad consequences for the policy process in the region. First, a greater number of organizations will inevitably

lead to more attempts to influence the policy system. The predominance of newly formed nonprofits in the region is likely to decrease the effectiveness of the public policy advocacy efforts of the sector. Second, there will be greater demands placed on state and local budgets for “fee for service” and grant revenues to flow to these new nonprofits.

This will add to the number of voices in the policy environment, but it may not be an effective or informative voice. Finally, a positive consequence for policy makers is that there is now within this region a much more diverse set of potential service providers to assist with policy implementation. This potential promotes the ability of the government to tailor its policies with a greater level of specificity than previously available.

4 Mountain and Pacific West Regions

The nonprofit sector in “the West” is difficult to describe as one region. The factors that influence the formation of the sector are markedly different in the Mountain and Pacific regions. For example, historically the population in the Mountain West has been smaller and has had lower poverty levels and less diversity than elsewhere (Hrebner and Thomas 1987). The population in the Pacific West has been larger, more dense and quite diverse. They are therefore considered separately in this article. In order to examine these expectations at the regional level, I aggregated state level data for Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah and Wyoming to comprise the Mountain West. I then aggregated data on Alaska, California, Hawaii, Oregon and Washington to comprise the Pacific West. Below, I explore the size and nature of the nonprofit sector in the two regions and use national data to provide comparisons.

Nonprofit organizations with annual revenues in excess of \$5000 must register with the Internal Revenue Service and may apply for tax exempt status as 501(c)(3) public charities. In the analysis that follows all charities registered with the IRS are noted as “registered” charities. As of 2010, all registered charities, regardless of revenue level, must file a 990-N, a 990-EZ, or a 990; these are known as “reporting charities.”

5 Nonprofits in the Mountain West

Based on the nonprofit theories discussed above, we would expect that the population, political culture, and community structure in the Mountain West would lead

to a nonprofit sector that is younger, smaller, and has less government support than those in other regions. Although western states include a large proportion of the US land mass, the relatively small population is concentrated in metropolitan areas. The limited availability of water, coupled with large tracts of public lands, has accentuated this trend. Thus concentrated or urban communities tend to be large and dynamic, rather than the small and stable communities that encourage nonprofit growth. These population features reduce the demand for nonprofits.

In addition, the frontier tradition led to an individualistic political culture and a suspicion of government. Government support of nonprofits varies among regions of the country (Salamon 1992). Voters are less likely to support government funding of social programs in an individualistic political culture and this reduces government funding to health and human service nonprofits. Further, few large corporations and banks are headquartered in the Mountain West (Hrebнар and Thomas 1987), thus reducing the sources for philanthropic donations.

Although governments in the West are more likely to rely on nonprofits to deliver services, the reduced supply of funding retards the density and growth rate of nonprofit charities. Under these conditions, the nonprofit sector grew more slowly in the Mountain West than in other regions. In 1998, the western region had the smallest proportion of nonprofit organizations in the country, 18% of all nonprofit charity filers, and had only 15% of the total nonprofit sector assets (Boris and Steuerle 2006).

More recently, population growth in the region has been high and diversity is increasing. The growth in nonprofits in the region mirrors these changes in the population. While the density of nonprofits is still relatively low, the number of nonprofits is growing. From 1992 to 1998, the number of public charity filers increased by 39% nationally. During the same period the number of public charity filers grew by 50% in the Mountain West.

This trend continued in the first decade of the 2000s. The national increase in the number of reporting charities was 46.5% but in the Pacific West charities increased by 49.7% and in the Mountain West the increase was 58.2% (see Table 1). The proportion of new and young nonprofits in the west is, thus, quite high. The high proportion of young nonprofits tends to diminish the overall capacity of the sector.

6 Nonprofits in the Pacific West

The nonprofit theories of demand, supply and community structure lead us to expect a markedly different nonprofit sector in the Pacific West. The population

Table 1: Change in the Number of Reporting Public Charities in the Western States, 2000 to 2010.

	Number Charity Organizations in 2000	Number Charity Organizations in 2010	Percent Change from 2000 to 2010
Arizona	3411	4583	60.77
Colorado	4933	6371	55.46
Idaho	967	1332	71.25
Montana	1371	1756	53.98
New Mexico	1811	2190	43.01
Nevada	961	1372	70.97
Utah	1235	1660	68.74
Wyoming	682	895	57.92
<i>Mountain West</i>	<i>15372</i>	<i>24314</i>	<i>58.17</i>
Alaska	1023	1480	44.67
California	28589	42841	49.85
Hawaii	1231	1916	55.65
Oregon	4126	6174	49.64
Washington	5873	9078	54.57
<i>Pacific West</i>	<i>40842</i>	<i>61129</i>	<i>49.67</i>
<i>US</i>	<i>249856</i>	<i>366086</i>	<i>46.52</i>

Source: Roeger, K. L., A. S. Blackwood and S. L. Pettijohn (2012) *The Nonprofit Almanac 2012*. Washington, DC: The Urban Institute.

is large and diverse. These features lead to large nonprofit sectors with many organizations aimed at diverse segments of the population. Further, the political culture tends to support government involvement in community problems. Many large corporations are headquartered in the Pacific West, and corporate and government financial support for nonprofits is high.

Eleven percent of all registered charities in the US, and 12% of charity filers are located in California. Oregon and Washington are each home to another 2% of the domestic nonprofit sector. Sixteen percent of the nonprofit sector, therefore, is located in these three Pacific West states and the nonprofits generate more than \$180 Billion in annual revenues.

7 Size and Scope of West Charities

Nationally, 70% of all charity filers have annual expenses below \$100,000. In the Mountain West, the proportion of charity filers in this expense range is slightly higher at 73% (see Table 2). Correspondingly the Mountain West has a slightly smaller proportion of large reporting charities. There are slightly more reporting

charities above \$10 Million in annual revenues at the national level (2.31%) and Pacific West (1.81%) than in the Mountain West (1.45%) (see Table 2). This small proportion of organizations, however, has a consistently high level of revenues. For example, the largest 1.45% of organizations in the Mountain West generated 79.7% of the revenues in the region.

The revenue per capita for the Mountain West region's charities is \$3267 which is significantly less than the national per capita revenues of \$4904. Thus charities in the region have nearly \$1637 less revenue available to spend on each resident than the national average (see Table 3). This sort of funding discrepancy could lead to significant unmet demand for charitable services in the Mountain West states. The charities in the Pacific West generate \$4956 revenues per resident, slightly above the national average by \$52 per resident. This is a particularly important finding, as policy makers need to be aware of the unmet needs in the Mountain West and form future policies to address these issues.

Demand theories suggest that a larger and more diverse population may create more need for nonprofits. Supply theories suggest that a large well-financed and better educated population would lead to the creation of more nonprofits. It is important to index the number of nonprofits in order to make comparisons that take population into consideration. The smaller population in the Mountain West does not, however, explain the small number of charity filers. The US has 11.86 reporting charities per 10,000 residents. The Mountain West states of Arizona,

Table 2: US and Western Charity Filers by Expense Level: Percentages of Organizations and Revenues, 2013.

Expense Level	US		Mountain		Pacific	
	% Total Filers	% Total Revenue	% Total Filers	% Total Revenue	% Total Filers	% Total Revenue
Less than \$100,000	69.75	0.37	72.36	0.59	70.04	1.15
\$100,000 to \$249,999	9.87	0.65	9.42	1.05	10.33	0.98
\$250,000 to \$499,999	5.80	0.85	5.29	1.30	5.82	1.28
\$500,000 to \$999,999	4.45	1.31	4.19	2.07	4.36	1.70
\$1 Million to \$5 Million	6.28	5.83	6.03	9.52	6.29	7.08
\$5 Million to \$10 Million	1.47	4.30	1.18	5.77	1.28	4.61
\$10 Million to \$100 Million	1.96	22.43	1.29	22.91	1.54	20.48
More than \$100 Million	0.35	64.26	0.16	56.79	0.27	62.72
Not Reported	0.06	0.00	0.07	0.00	0.07	0.00

Data retrieved from: Internal Revenue Service, Exempt Organizations Business Master File (2013, Jul). The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/>.

Table 3: Public Charity Revenues and Expenses per Capita West Region by State as of 2010.

State	Total Revenues per Resident	Total Expenses per Resident
Arizona	4824	4638
Colorado	3829	3592
Idaho	2129	2034
Montana	3900	3681
New Mexico	1016	948
Nevada	2248	2127
Utah	2277	2058
Wyoming	2000	1902
<i>Mountain West Region</i>	<i>3267</i>	<i>3093</i>
Alaska	4200	3889
California	5009	4826
Hawaii	3629	3458
Oregon	5619	5482
Washington	4631	4484
<i>Pacific West Region</i>	<i>4956</i>	<i>4780</i>
<i>US</i>	<i>4904</i>	<i>4712</i>

Source: Roeger, K. L., A.S. Blackwood and S. L. Pettijohn (2012) *The Nonprofit Almanac 2012*. Washington, DC: The Urban Institute.

Nevada, and Utah have a much lower density. Charity density in both Wyoming and Alaska is nearly twice that of the national average (see Table 4). Each of the states in the Pacific West region has a higher density of charity filers per 10,000 residents than the Mountain West average. Again, this is an important finding for policy makers in the region. For example, in Nevada there are only six charities for every 10,000 residents but each of its neighboring states of Idaho, California, Utah and Arizona has at least 1.5 to 5 more charities per 10,000 residents. This will change the balance of demand and supply of services in the region. The demand theories would lead us to conclude that the low density of charities in the region may have left excess unmet need from government or market failure. The population growth rate and the increases in diversity in the region would also support the higher growth rate among charities to meet additional needs in the region.

Another important consideration is the increase in the number of public charities within the past decade. From 2000 to 2010 the number of reporting charities increased 46.5% in the nation, but the western region grew at an even faster rate. The number of charities increased by 58% in the Mountain West, from 15,372 to 24,314. The Pacific West saw slightly lower increases of 49.7%, moving from 40,842 to 61,129. Policy implementation could be influenced by this recent increase because of the increased diversity of the service providers in the non-profit sector. This rapid rate of increase can lead to problems for policy-makers.

Table 4: Density of Charity Filers in the Western States, 2010.

State/Region	Number of Reporting Public Charities Per 10,000 Residents
Arizona	8.58
Colorado	15.25
Idaho	10.56
Montana	21.34
Nevada	6.08
New Mexico	12.58
Utah	7.54
Wyoming	19.11
<i>Mountain West Region</i>	<i>11.02</i>
Alaska	20.84
California	11.50
Hawaii	14.09
Oregon	16.12
Washington	13.50
<i>Pacific West Region</i>	<i>12.26</i>
<i>US</i>	<i>11.86</i>

Source: Roeger, K. L., A.S. Blackwood and S. L. Pettijohn (2012) *The Nonprofit Almanac 2012*. Washington, DC: The Urban Institute.

The life-cycle of nonprofits suggests that young organizations have lower levels of professionalization and organizational capacity. Coupled with the lower densities of organizations, the high proportion of new and young nonprofits may mean a high proportion of reporting nonprofits in the Mountain West are less efficient and less effective in carrying out their missions than older and more professional organizations.

The average age of the charitable nonprofits in a community is thought to influence further development in the sector. As nonprofit organizations move beyond the founding stage, they build the infrastructure of the organization and increase its capacity (Wood 1992; Letts 2005). A more mature sector that includes a number of larger nonprofits will be better able to support further sector growth. Organizations with a stable infrastructure may serve as incubators of sorts, providing goods, services, and mentorship to newer organizations that need the external assistance to build their own capacity.

However, since the Mountain West charity filers are younger than the national average, the sector in the region may have even less capacity than is apparent from the low density and small numbers of organizations. More than 30% of charities in this region were established within the past 10 years (see Table 1). This coupled with a smaller proportion of large nonprofits in the Mountain West may

slow the rate at which the sector in this region is able to achieve a true growth in capacity. In contrast, the proportion of mature and large nonprofits and smaller and younger nonprofits in the Pacific West region seems to provide a balance that will benefit the sector overall.

In examining revenues going into the nonprofit sector in the region, it is also important to understand how these revenues are distributed among types of programs and services. The IRS categorizes nonprofits by the type of service they provide to the public using the National Taxonomy of Exempt Entities (NTEE). There are 26 NTEE categories that can be summarized in nine major groupings: arts, education, environment and animals, health, human services, international, mutual benefit, religion-related, and societal benefit.

There are several major differences between the US sector and the West when considering the distribution of revenues among the nine groups. Reporting charities in the education subsector account for 18.2% of the sector's organizations nationally, but only 15.6% in the Mountain West (see Figure 1). The prevalence of public universities rather than large private charity universities in the Mountain West may account for some of these proportional differences.

The other major differences are in health and human services (see Figure 2). A smaller proportion of the Mountain West (29%) and Pacific West (29%) charitable sector is focused on human services than the national proportion of charities (34%) in this subsector. Another interesting feature of the region is the prevalence

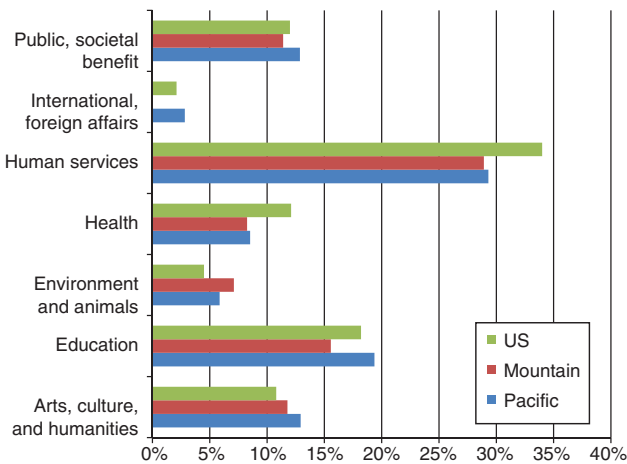


Figure 1: Reporting Charities by Region and Subsector, 2013.

Data retrieved from: Internal Revenue Service, Exempt Organizations Business Master File (2013, Jul); The Urban Institute, National Center for Charitable Organizations, <http://nccsdataweb.urban.org/>.

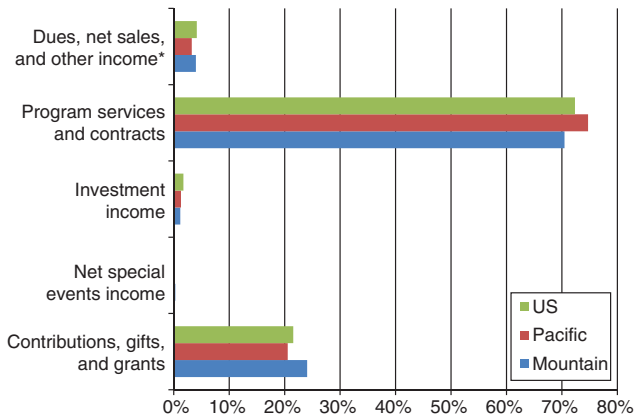


Figure 2: Revenue Sources by Type for Reporting Charities in Western States, Circa 2011. Citation: NCCS Core File (Public Charities, circa 2011). The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/>.

of environment and animal-related nonprofits. Within the Mountain West region, 7.11% of charities are focused on the environment and animal-related causes. This is well above the national percentage of 4.5 (See Figure 1).

Finally the prevalence of religion-related charities in the Mountain West (15%) is surprisingly greater than the Pacific West proportion (8.3%) and the national proportion (6.4%). As religiously affiliated organizations face even more stringent limitations on their involvement in the policy process, the prevalence of religion-related nonprofits in the Mountain West suggests lower levels of advocacy is likely in this region. That being said, the number of organizations concentrated in the environmental area suggests policy-makers may face a higher level of advocacy in this area.

Revenue diversity in western charities is also important because it relates to the stability of the sector. Charities in the Pacific West collect far more fees for services than do charities in the rest of the nation. Mountain West charities rely more heavily on contributions as a revenue source by nearly 4% of total revenues. Special events and investment income make up a small proportion of revenues for all charities nationally (0.19%), the Mountain West (0.3%), and the Pacific West (0.2%).

As noted initially, a regional analysis of the nonprofit sector is uncommon. More often nonprofit scholars focus their research on a geographic area governed by a common set of governments – at the city, state, or national level of analysis. It is important to pause and consider whether or not studying a larger geographic region is useful? At first blush, the stark differences in the nonprofit sector in the

Mountain and Pacific West regions point to the difficulties with generalizing to such a large geographic area government with so many different municipal and state governments.

The size, age, density, revenues structures and service areas vary greatly between the two regions. Nonprofits in “the West” may not be a very useful way for governments to consider the impacts of the sector. Within these two “sub-regions” however, the aggregation of data beyond the state level is quite informative. For example, examining the density of charities within one state does not establish a clear pattern between the population, the culture, and the demand for nonprofit services. Expanding this analysis to include a number of states helps us to understand the sector in important ways.

Knowing that not only in Utah, but throughout the Mountain West there are many new nonprofits relying in large part on private contributions to serve their communities is important information for nonprofit and government leaders alike. Governments’ roles as regulators of the nonprofit sector, as policy-makers who nonprofits seek to influence, and as contractors of nonprofit services can all be informed by a better understanding of the nonprofit sector in their region. Below I consider the implications for governments in each of these roles in both the Mountain West and in the Pacific West.

8 Mountain West Considerations

In the Mountain West, those interested in public policy need to understand that there is a low density of charities and although the sector is growing rapidly it will take time for it to reach its true capacity. This analysis clearly shows that currently charities in the Mountain West are being asked to serve more residents with fewer revenues than their counterpart organizations in other parts of the US. This has several implications both for governments and nonprofits. First, when government officials in the region choose to implement policies by contracting with the nonprofit sector, they must know that their infrastructure expectations may be unrealistic for some small or newly formed nonprofits. Government must therefore consider working to help the sector to build capacity to meet public sector accountability expectations. Second, policy makers should also understand that as needs grow due to increases in population size and diversity, the nonprofit sector is expanding to meet these needs. Finally, as the sector grows and matures its organizations will be better able to fulfill their roles in the democratic process.

These young organizations will have less service and advocacy capacity until they are able to develop an infrastructure. Governments in the region

should consider how to support the young sector in order to maximize services and enhance the policy process in their communities. Governments might work to improve the policy networks by providing supports to state nonprofit associations and similar organizations that help support and mentor the work of young nonprofits and their leaders.

The policy environment in the Environment and Animal NTEE category is especially rich in the Mountain West. Those dealing with relevant policies in the region should understand the potential benefits of this increased density. For example, the nonprofits may be able to provide more nuanced research and information because the density allows them to become even more specialized. Involving representatives from these organizations in advisory committees and other less formal consultations would benefit the policy process.

The concentration of the revenues in the Health and Human Services NTEE categories and the lower revenues for revenues in the Education category, will also impact the policy environment in the region. As policies are made in areas related to these fields, policymakers should consider the finances of these charities. The large healthcare organizations, in particular, may have greater influence in the policy process because of their importance to the field. Policy makers should be aware of the smaller number of organizations and the lower revenues to charities in education and that the combination may lead to unmet needs in some communities.

Finally, policy makers should be aware that private contributions are a more significant funding source for charities in the Mountain West region. Changes to tax code at either the state or federal level could impact the level of giving and this impact will be more significant to charities in the Mountain West than in other regions of the country. As changes in charitable contributions are considered, policy makers should understand they could have a larger effect on the charitable sector in this region.

9 Pacific West Considerations

The large population concentration in the Pacific West is perhaps the most significant determinant of the size and scope of its nonprofit sector. The large, diverse, urban-based populations, in particular in the west coast states, have led the nonprofit sector to develop in distinct ways. There is a greater reliance on fees for service within the region. Downturns in the economy therefore have a larger impact in this region than in other areas of the country. In addition the large number of organizations in the region leads to more competition for all funding.

Nonprofits in the Pacific West will increasingly benefit from collaborating to meet needs whenever possible. Governments in this region will increase the overall capacity of the sector if they work to facilitate these collaborations. That said, the news is really quite good for nonprofits and governments in the Pacific West. The larger more diverse population has, as the demand theories suggest, led to a larger and more diverse nonprofit sector.

There are not only more nonprofits in the region; there are also more nonprofits per 10,000 residents than are in the Mountain West. This density level is being maintained by a high growth rate as well. There is an appropriate balance between young organizations and older organizations as well as a balance between small and large organizations. This balance will promote capacity expansion within the sector. This will be enhanced as collaborations and networks expand in the sector.

The Pacific West nonprofit sector is well positioned to meet the demands of the future. Government policy-makers should feel confident that the sector will be able and ready to meet future demands to help meet the needs in the region. Nonprofit organizations can play many important roles in the policy process. As those in both nonprofits and governments better understand the nature and scope of their reciprocal relationship, the policy process will benefit.

This study highlights the advantages of the regional approach to analyzing the nonprofit sector. By examining the nature and scope of the nonprofit sector policy makers and others in the policy subsystems can identify additional ways nonprofits can contribute to public policy.

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