THE NONPROFIT ASSOCIATION OF OREGON
Good works. Together.

Testimony of James White Executive Director, Nonprofit Association of Oregon
HB 2060A
May 13, 2013
Senate Committee on Finance and Revenue

The Nonprofit Association of Oregon (NAO) supports the passage of HB 2060a.

NAO is a registered 501(c)3 nonprofit organization representing over 600 Oregon nonprofit organizations and affiliate members which provide assistance to the nonprofit sector. Our members are located throughout the state and come from all areas which serve our communities, including education, health and human services, the arts, and environmental protection. NAO's mission is to strengthen the collective voice, leadership and capacity of Oregon nonprofits to enrich the lives of all Oregonians. We do this by conducting training, offering executive transition and consulting services, and public policy advocacy. More information about our many programs and services can be found at www.nonprofitoregon.org.

The public, private, and the nonprofit sector work together throughout Oregon to create and maintain our vibrant civil society. We elevate our communities and we address the unmet needs of our citizens together. The nonprofit sector is well aware of how precious resources are to our communities. Our members, and the vast majority of nonprofits, acknowledge their responsibility to be good stewards of the resources they receive through their tax-exempt status, whether those assets are obtained from government contracts, foundation grants or donations directly from the giving public. Oregon nonprofits accomplish incredible achievements with limited resources and despite increase demand for services in these economically trying times. More than 70 percent of registered charities in Oregon operate with budgets under $100,000 and many of those are exclusively run by volunteers. The Oregon nonprofit sector understands our unique role in society and accepts the great responsibility that communities place in us to help them thrive and when they are in need. We also understand and appreciate the responsibilities of our tax exempt status enacted through legislation by government.

Unfortunately, there are a handful of charitable corporations that do not take these responsibilities seriously. These organizations (almost all of which are headquartered out of state) fundraise in Oregon with an insignificant amount of the donated funds going to supporting charitable programs. These organizations often have signed "sweetheart" contracts with national telefunding companies with the latter receiving 80-90% of the donations. When Oregonians donate to these organizations and take a tax deduction, the State is, in effect, subsidizing the contributed revenue. To the extent it encourages donors to contribute funds to relieve some of burdens of government, this makes sense. But at a certain level of diminishing returns, it is appropriate for society to question this arrangement.

The Better Business Bureau Wise Giving Alliance Standards for Charity Accountability specify that qualifying charities must spend at least 65% of their total expenses on charitable program activities. This provides a good target “norm” for organizations but would be an ineffective indicator to use as a “floor” to establish a minimum level of performance. The organization Charity Navigator, America’s leading independent charity evaluator, rates the 6,000 largest charities and provides a four-star rating system as a means to educate potential funders on the financial health, accountability, and transparency of an organization. They use a matrix that includes expenditures related to an organization’s charitable program. Within Charity Navigator’s sophisticated matrix, it is instructive to understand what happens when a charity falls below one third of revenue being expended on program:

> *Program Expenses less than 33.3%:*
> *Our [Charity Navigator] data shows that 7 out of 10 charities we've evaluated spend at least 75% of their budget on the programs and services they exist to provide. And 9 out of 10 spend at least 65%. We believe that those spending less than a third of their budget on program expenses are simply not living up to their missions. Charities demonstrating such gross inefficiency receive a 0-star rating for their Financial Health.*
> *(www.charitynavigator.org/index.cfm?bay=content.view&cpid=48)*

For the State to continue to subsidize charities through tax exempt status, HB 2060a mandates that the charity must devote at least 30% of expenses to charitable program. NAO agrees that this proposed threshold is appropriate and is approximate to a standard already in use by organizations such as Charity Navigator. NAO believes that a “floor” of 30% will easily identify those under-performing charities that, year-after-year, devote a mere fraction of funds donated to their actual program mission. These organizations are anomalies, draining away charitable donations from more efficient charities providing essential aid and services to our Oregon communities.

NAO also supports the requirement that charities which run afoul of the law must put donors on notice that contributions will not be deductible for state tax purposes. This will serve to help educate donors that there is a wide disparity between the performance of charities and that donors need to pay more attention to this reality before deciding how to allocate their valuable charitable dollars. At this time of debate at the federal level of removing or capping the incentive for charitable giving, NAO views HB 2060a as an important step in distinguishing between the vast majority of high-performing nonprofits and those that are clearly not.

NAO is mindful that setting a blanket threshold has risks. There may be legitimate reasons why a worthwhile charity could fall below even the 30% expenditure minimum. We believe that HB 2060a, as conceived by Attorney General Rosenblum, recognizes the most authentic reasons for under-performance and creates appropriate exceptions. Thus, the bill requires a three year averaging process, it protects startup charities, those that may transfer money to affiliates, and those that accumulate revenue to be spent in a subsequent year when consistent with the representations made to its donors. All of these exceptions, as well as the 30% threshold, are critical to attacking the problem identified without imposing undue hardships on legitimate charities.

For all of the above reasons, NAO supports the passage of HB 2060a.