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# Influences on Reported Nonprofit Lobbying Efforts

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# Influences on Reported Nonprofit Lobbying Efforts

Spring 2014 Capstone

Alyson Partain

*“Lobbying is just another word for freedom of speech... speaking up for  
your you believe in is about  
as American as you can get.”*

*-John D. Sparks.*

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“Never doubt that a small group of thoughtful,  
committed citizens can change the world.  
Indeed, it’s the only thing that ever has.”  
-Margaret Mead

## Executive Summary

The nonprofit sector holds an interesting role in democracy, as this segment balances the powers of government and business by providing a way to cultivate social justice and afford people a means of acting and promoting interests outside of the government and private sectors. Nonprofit organizations therefore allow people to join together in providing services and programs that strengthen the communities in which they act. Advocacy involves identifying, embracing, and promoting a cause, especially by educating the public about their organization, whether this is through public engagement, coalition building, or lobbying.

Lobbying is a specific but critical component of general advocacy that enriches a nonprofit's ability to fulfill its mission and helps to build informed public policies. For some organizations, issue advocacy is the purpose of their existence, others use it as a way to meet organizational goals, but some may avoid issue advocacy as a whole. Since the Internal Revenue Service gives federal tax-exemption status to organizations categorized as 501(c)(3), there are lobbying expenditure limitations on this category as put into law; most organizations do not get close to this threshold, but some change their advocacy techniques to avoid approaching the limit and endangering their tax-exempt status. Some literature shows that there is a positive relationship between the size of an organization and the amount of lobbying expenditures reported, but a negative relationship between certain types of funding sources and the willingness of a nonprofit to report lobbying expenditures. Therefore, there is not only the question of what factors influence whether a 501(c)(3) organization is willing to engage in lobbying efforts, but what factors may influence the extent of lobbying expenditures should be considered as well. These factors for each question may be the same, but they must be tested separately.

Literature from the field is used to gain an understanding of nonprofit advocacy and lobbying efforts and the tendencies of 501(c)(3) organizations to lobby, as well as to define the expectations of what should be reported on the Form 990 to the Internal Revenue Service (IRS). Using data from IRS Form 990, this study analyzes the relationship between lobbying expenditures, the size of the organization, and various funding sources. Funding sources assessed include direct public support, indirect public support, government grants, program service revenue, and membership fees and assessments. Two regression models were utilized, one to look at the factors associated with the organization's willingness to engage in lobbying efforts, and a second to assess the factors associated with the extent of lobbying expenditures, if the organization did indeed engage in lobbying efforts. The study finds a statistically significant positive relationship between several sources of funding (direct public support, indirect public support, and program service revenue) and the reporting of lobbying expenditures, as well as a statistically significant positive relationship between several sources of funding (direct public support and indirect public support) and the amount of lobbying

expenditures reported by the organizations that do engage in lobbying efforts. The funding factors associated for each of these questions did not provide the same results. The variable of the size of the organization provided straightforward results; the larger the organization, the more likely the organization was to lobby because it had more access to funding, but eventually the size was not a factor and the organization either reported lobbying or did not. Therefore, instead of the results showing that all large nonprofits lobby, it shows that if a large nonprofit does lobby, then they do a lot of it. Across the board, any increased amounts of funding correlated with increased reports of lobbying expenditures. Further conclusions are problematic, however, due to limitations in the research design. Although the dataset provided a large sample, more control over the sample selection would be ideal, as this study had to work within the constraints of limited data access. To truly assess the impacts of funding and size factors on lobbying expenditures, great care would need to be taken in ensuring the data from the IRS Form 990 was correctly filed by each organization, and proper measures would need to be taken to collect the data from organizations of a specific sector to ensure a more homogenous and specific data set. An interpretation of the results and a recommendation for further studies is made in the conclusion of this paper.

## Introduction

Nonprofit organizations hold a valuable place in society, as they often step in with aid or fill in gaps that are not always met by the private or governmental sectors, allowing people to do together what they cannot do separately. This “third sector” outside of both the market and the state recognizes a “distinct sphere of private organizations serving public purposes and not organized principally to earn a profit” (Salamon and Anheier). Religious leader Paul H. Sherry wrote that the main role of these “voluntary associations in American life is to continually shape and reshape the vision of a more just social order, to propose programs that might lead to the manifestation of that vision, to argue for them with other contenders in the public arena, and to press for adoption and implementation. For voluntary organizations to do less than that is to abdicate their civic responsibility” (Sherry). Advocacy is therefore inherent in the responsibilities for an effective nonprofit, as this allows the organization to speak out effectively on behalf of the specific cause.

Organization leaders, especially within the nonprofit sector, must stay informed on current issues and legislation that may concern the organization and the surrounding community. Nonprofits may advocate for their cause in a general sense of educating the public on their cause with no penalty, but restrictions are incurred when actions are for specific acts regarding legislation. When there is a subject of relevance to the organization brought to the attention of federal, state, or local government entities, organizational leaders may employ lobbying techniques to encourage members of the organization to express concerns to officials, or the leader may contact officials directly. Even so, opinion is very diverse on what actually constitutes the definitions and actions of advocacy and lobbying, and the lines are greatly blurred.

Advocacy is an important element for nonprofit organizations throughout the United States, whether this is done through direct lobbying of government officials or education programs for the public; the style of advocacy for a nonprofit may differ depending on several variables, and therefore the amount of funding may vary accordingly. Advocacy can be seen as an all-encompassing term of these efforts, therefore including the efforts of lobbying, coalition building, and public engagement. An understanding of the definitions of these terminologies and the pervasiveness of advocacy actions among nonprofits can aid in the recognition of a change in the advocacy funding by the organization as a result of funding sources, the size of the organization, and the classification of the nonprofit tax-exempt status.

I hypothesize that funding sources and the size of the organization have a considerable impact on whether lobbying expenditures are reported, as well as the extent of advocacy funding, as measured by the reported lobbying expenditures. Therefore, the null hypothesis is that the differing funding sources and the size of the organization do not have an impact on the extent of advocacy funding. By looking at these variables and gaining an understanding of nonprofit advocacy efforts, we may be able to see trends for nonprofits' willingness to engage in advocacy-related activity. These results could potentially aid growing 501(c)(3) nonprofits in gauging the need for lobbying efforts as dependent on their size and funding sources.

## Background

Advocacy is an effort through identifying, embracing, and promoting a cause to shape public perception or to effect change that may or may not require changes in the law. Advocacy is a crucial part of the interaction necessary for the democracy system within the United States to function. Advocacy for beliefs is anticipated from the general public, but federal laws restrict the amount of advocacy utilized by employees and leaders of tax-exempt organizations, as designated by the amount of lobbying expenditures reported. Even though advocacy may include efforts for coalition building and public engagement, the regulated division of advocacy efforts is that of lobbying. Those involved in such organizations must therefore understand applicable definitions and limitations so they will not breach these regulations, possibly endangering their tax-exempt status.

Nonprofits, or not-for-profit organizations (NPOs) are organizations that use surplus revenues to achieve their goals rather than distributing them as profit or dividends. Through the prohibition of not allowing more than an insubstantial accrual of private benefits, the organization ensures that it serves a public interest rather than private inurement. While nonprofit organizations are allowed to engender surplus revenues, these "profits" are to be used for expansion or investment within the organization itself. Therefore, surplus revenues and their uses may be constrained or restricted so as to avoid excess benefit transactions.

Marcia Avner argues that, “nonprofit organizations can and should lobby,” as it isn’t “difficult... mysterious... [or] expensive, and it is a proper role for nonprofits”(Avner). Lobbying is a specifically focused technique of advocacy that is used to influence legislation, or specific laws that are formal statements of public policy. Nonprofits can therefore advise legislators to pass laws and impart funds to resolve issues, or they may attempt to impede actions that would have damaging impacts on issues and communities.

If a nonprofit decides to lobby, there are a variety of factors that may influence the extent of these lobbying efforts, including the targeted arena of influence, the size of the organization, regulations over lobbying for that specific organization, and the public policy being lobbied. Public policy is the combination of objectives, regulations, and funding concerns set by public officials that clarify how the government plans to meet public needs, solve problems, and spend public funds (Avner 26). Arenas of influence are the places where these public policies are decided. Lobbying is mostly targeted towards legislative activities, such as that of Congress, state legislatures, and city councils. The size of the organization may influence the lobbying efforts, as these entities may have more access to funds that can be utilized for lobbying, but they also may be under more scrutiny and therefore be deterred from these sorts of activities.

Current regulations state that NPOs and those within the organization may utilize some lobbying pursuits, but there are policies barring “substantial” amounts of lobbying efforts. Once an organization has decided to lobby, this may be done through direct lobbying, or direct contact to persuade elected and appointed officials to adopt your position, or grassroots lobbying, the education and solicitation of the public to persuade the elected and appointed officials to adopt your position. Actions may include proposing a new law, supporting an existing legislative proposal, defeating proposed legislation, lobbying the executive branch, building and mobilizing grassroots support, or advocating through the media (Avner 85). To ensure proper measures to stay within regulations of the 1976 Lobby Law, organizations may choose to use a variety of systems to record their activities, but accurate reporting is essential no matter the system utilized.

Literature from the field is used to gain an understanding of nonprofit advocacy and lobbying efforts and the tendencies of 501(c)(3) organizations to lobby, as well as to define the expectations of what should be reported on the Form 990 to the Internal Revenue Service (IRS). Some literature shows that there is a positive relationship between the size of an organization and the amount of lobbying expenditures reported, but a negative relationship between certain types of funding sources and the willingness of a nonprofit to report lobbying expenditures.

## Nonprofit Classification

Nonprofit organizations vary greatly in function and composition, so direct definition is very difficult to pinpoint. The classification of nonprofit is a generalization of a diverse category that includes anything from social movement organizations and political organizations to service groups, citizen organizations, and public interest groups. The National Taxonomy of Exempt Entities (NTEE) was a system created during the 1980s by the NCCS to classify nonprofit organizations. In the mid-1990s, the IRS decided to begin classifying new organizations based on applications for tax-exempt status (Forms 1023 and 1024) into about 400 different categories. A 501(c) organization is one that is classified as tax-exempt, and there are 29 types that are exempt from some federal income taxes. For the purpose of this study, I will focus on nonprofit advocacy organizations that engage in issue advocacy but are not tied directly to political parties (such as 527 PAC groups).

Under Section 501(c)(3) of the Internal Revenue Code, it is stated that the organization is exempt from federal income tax if its activities have the following purposes: charitable, religious, educational, scientific, literary, testing for public safety, fostering amateur sports competition, or preventing cruelty to children or animals (IRS). It also states that, “no organization may qualify for section 501(c)(3) status if a substantial part of its activities is attempting to influence legislation... legislation includes action by Congress, any state legislature, any local council, or similar governing body, with respect to acts, bills, resolutions, or similar items. It does not include actions by executive, judicial, or administrative bodies” (IRS). An organization will therefore be regarded as attempting to influence legislation if it contacts, or urges the public to contact, members or employees of legislative body for the purpose of “proposing, supporting, or opposing legislation, or if the organization advocates the adoption or rejection of legislation” (IRS). Activities such as educational meetings or distributing educational materials are ways organizations may involve themselves in issues of public policy without the activity being considered as lobbying. As for the term “substantial,” an organization must be assessed through the “balancing test” that considers factors such as those related to the organization’s activities and weighs them against the lobbying aspects in terms of time, cost, exposure, and spirit, and these aspects must be ruled as “insubstantial” (Kupfer). An organization failing this test is in danger of losing federal tax exemption, as well as other potential penalties and taxes

Organizations that wish to lobby may be classified as a 501(c)(4) “social welfare” organization, which is not limited by lobbying restrictions, as they hope to “promote the common good of the people in the community,” while surplus revenues are still directed to charitable or educational functions(IRS). These organizations have many of the same benefits of the 501(c)(3) classifications, but donations to 501(c)(4) organizations are not tax-deductible for the donor (IRS). Other types within the dataset include labor, agricultural, and horticultural organizations, social and recreational clubs, fraternal beneficiary societies and associations, business leagues and chambers of commerce, and voluntary employee beneficiary associations. As 501(c)(4)-(9) organizations must only report lobbying

expenditures over \$2,000 (according to Form 990, Part VI Line 85) they are less regulated, and lobbying activities are more conventional for these classifications of organizations. This study will focus on 501(c)(3) organizations, and the lobbying expenditures that are reported on IRS Form 990 Schedule A, which only 501(c)(3) organizations file.

### Advocacy for Nonprofits... or Lobbying?

Nonprofit advocacy is activity by a nonprofit organization to influence public policy or public opinion, and structure and style varies by organization, as the organization's mission, financial and membership sizes, and type of advocacy activities may impact the structure and style greatly. As well, the method for enacting the advocacy may further the action into the category of lobbying.

Even though most people use the words interchangeably, the difference between advocacy and lobbying must be noted. Many organizations advocate for general legislative actions, but they may not specifically lobby for a distinct change of legislation. Therefore, organizations may advocate on their own behalf as a way to attempt to affect a particular part of society, while lobbying is specifically attempting to influence legislation. Therefore, laws limiting lobbying by nonprofit organizations do not govern other advocacy actions. Therefore, not only are nonprofits legally entitled to lobby, they are expected to do so.<sup>1</sup> It is acknowledged that nonprofits have an important role in society to bring educated opinions of the public to the scene, but this must be done in a manner so as to follow the laws that govern how nonprofits report and limit lobbying expenditures.

The term "grassroots lobbying" is appealing to the general public to contact the legislature about an issue, while "direct lobbying" is contacting government officials or employees directly to influence legislation, as divided and defined in the 1976 Tax Reform Act (CTNPOs). This distinction is helpful to nonprofits that elect to come under the 1976 law, as they may only devote 25 percent of their total lobbying expenditures to grassroots lobbying.

A coalition is a group that is focused on promoting or resisting a certain issue, and power is held within a united front. An organized and dedicated coalition utilizes grassroots efforts to increase community support and education on the issue. In addition to building the coalition and creating a network of communication, public engagement must be utilized to ensure a variety of people within the community are involved. These coalitions aid in lobbying efforts by creating a greater base of support for mobilization goals, increasing access to a mass audience, and increasing leverage with decision-makers (CTNPOs).

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<sup>1</sup> Note that while all 501(c)(3) organizations may lobby, they are not allowed to take on activities that may influence the outcome of elections of public officials. The advocacy for a particular political candidate is sometimes termed as "express advocacy," and this is specifically forbidden.

## Laws and Regulations

Before 1976, there was uncertainty on the extent of lobbying nonprofits could engage in, and IRS rules stated that 501(c)(3) organizations could lose their tax-exempt status if they did more than an “insubstantial” amount of lobbying, but the test for what an insubstantial amount was to be was never specified, and it was uncertain as to what constituted “too much lobbying” (Avner 122). This vagueness still causes some nonprofits to fear that acts of lobbying may cause them to lose their tax-exempt status, but the 1976 Lobby Law specified a “lobbying-expenditure test” to create a measurable set of guidelines for lobbying activity, as specified under Sections 501(h) and 4911 of the Tax Reform Act of 1976 (Avner 122). Organizations that choose to follow these rules can spend up to a defined percentage of their budget for lobbying without threatening their tax-exempt status and must file IRS Form 5768; if an organization chooses to go by the vague insubstantial-lobbying test, they must use a system of a “balancing test” which considers certain factors and activities of the organization (Kupfer). This is not advised, as there are not clear guidelines, and there is a great amount of uncertainty.

*Table 1: Lobbying Limits Under the Expenditure Test*

Exempt Purpose Expenditures	Total Lobbying	Grassroots Lobbying
Up to \$500,000	20%	5%
\$500,000 to \$1,000,000	\$100,000 + 15% of excess over \$500,000	\$25,000 + 3.75% of excess over \$500,000
\$1 million to \$1.5 million	\$175,000 + 10% of excess over \$1 million	\$43,750 + 2.5% of excess over \$1 million
\$1.5 million to \$17 million	\$225,000 + 5% of excess over \$1.5 million	\$56,250 + 1.25% of excess over \$1.5 million
Over \$17 million	\$1 million	\$250,000

Avner, Marcia. *The Nonprofit Lobbying and Advocacy Handbook for Nonprofit Organizations*. St. Paul: Amherst H Wilder Foundation, 2002.

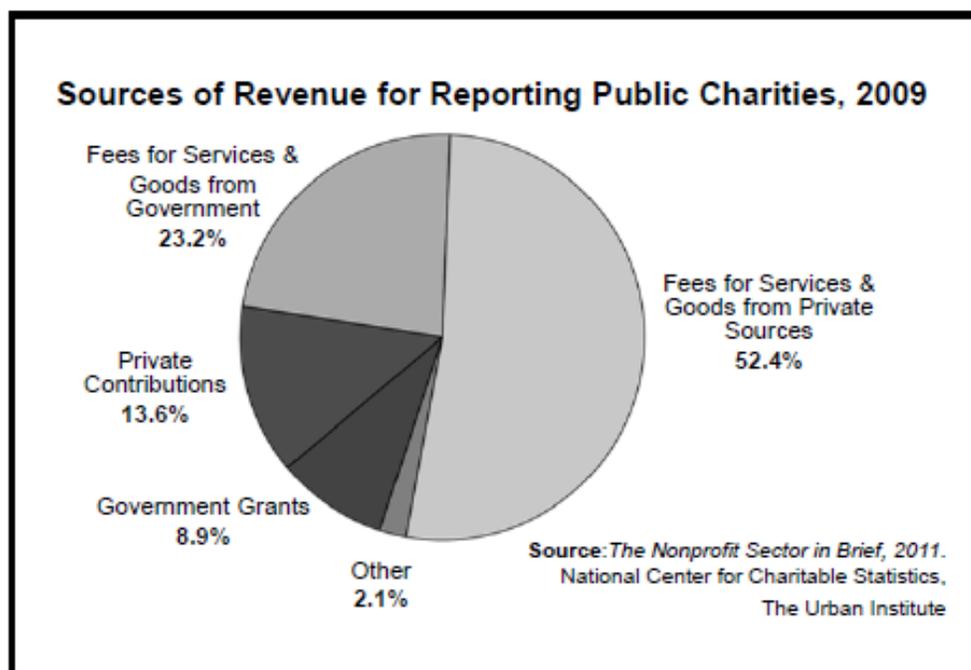
Table 1 shows that nonprofits that choose the 1976 Lobby Law guidelines are able to spend a large amount on lobbying (more to direct than grassroots) without being pressured by the threat of a pulled tax-exempt status. There is clearly a benefit to nonprofits that lobby to increase the educational level and action of their cause, and it can be easily managed through these guidelines. There are clear and measurable guidelines for lobbying, as they are measured by expenditures, and many actions can be taken that are not included in these expenditures, such as lobbying by volunteers, communication about legislation (as long as there is no call to action), and offering of technical advice to a legislative body on pending legislation upon written requests from the legislative body.

All 501(c)(3) organizations, with the exception of churches and associations of churches, must report lobbying expenditures to the IRS. For those that choose to follow the 1976 Lobby Law, the total amount spent and the specific amount of grassroots lobbying expenditures must be reported. Those that do not follow the

1976 Lobby Law must report detailed descriptions of all activities related to lobbying. In either case, documentation is necessary to back up the claims reported on the IRS Form 990. It is also important for the organization to look into lobbying reporting and registration requirements for the specific state.

### Funding for Nonprofits

New methods of increasing revenue and fundraising for nonprofits change every year through changes of trends, but basic methods of fundraising essentially stay the same. These income streams may come from fees for services, interest from investments, corporate philanthropy, individual charitable donations, government funds, grant making charities, or foundations. Literature shows that these funding streams traditionally stay the same for an individual organization from year to year.



The Urban Institute. "Sources of Revenue for Reporting Public Charities, 2009." *The Nonprofit Sector in Brief, 2011*. National Center for Charitable Statistics.

A Capstone Topic from 2011 entitled *Funding Source Impact on Nonprofit Advocacy Activity* by Sean Patrick Naylor sought to determine the relationship between funding sources and a nonprofit's willingness to engage in advocacy by examining lobbying expenses as reported on the 2007 IRS Form 990 (Naylor). The independent variables chosen to examine as funding sources are classified as direct support, indirect support, government support, program revenue, and membership. He rejected the null hypothesis, as he found that lobbying expenses are not independent of funding sources. This study focused directly on the impact of these funding sources on whether the organizations analyzed reported lobbying expenditures. The extent of expenditures and the size of the organizations were not taken into consideration.

## Research Design

### Objective

This study will analyze whether nonprofit organizations report lobbying expenditures and the extent of these expenditures as a result of the organization's IRS tax-exempt classification, the organization's size, and the funding sources.

### Unit of Analysis

The target population for this study is 501(c) organizations, and the study population is a sample retrieved from IRS microdata files for the year 2007, the latest available. The data set is pulled directly from the IRS website, the sample is provided by the IRS, and the data set is assumed to be random. The sample of 25,803 organizations includes 501(c)(3)-(9) organizations, and the unit of analysis is one nonprofit organization.

### Research Structure

The research design proposed is a regression analysis to determine the relationship between the amount of funding from different sources, the size of the organization, and the classification type of the organization on whether an organization reports lobbying expenditures, as well as the extent of these expenditures. The five major sources of funding are direct public support (fund\_direct), indirect public support (fund\_indirect), government contributions (fund\_govt), program service revenue (fund\_prog), and membership dues and assessments (fund\_prog). The size (size) of the organization, as determined by the total amount of expenditures, and the classification (class) of the organization are included as well. Since the specific dependent variable chosen to express the presence of lobbying is found on a form only filed by 501(c)(3) organizations, the "class" variable is a control variable to ensure all observations are from the 501(c)(3) categorization. Lobbying expenditures cannot be reported as negative, so these inaccuracies of negative reporting were controlled for through the dummy variable "negative." The dummy variable "anylobbying" was created to reflect any organization reporting lobbying expenses. The control variable of sized squared (sizesq) was also created to take into account the possible quadratic shape of the data.

To take into consideration both the question of what factors impact whether the organization reports lobbying and, if they do report expenditures, the factors that impact the extent of this expenditure, it is determined that two different models be developed. Few nonprofits report lobbying expenditures in this dataset, as shown at about 14%. Perhaps more actually do lobby, and especially small ones that are concerned about reporting correctly or at all. This raises a question about how to model lobbying expenditures. A regression of the amount of expenditures includes 86% observations of 0, with highly positively skewed values above 0. Such a regression is very misleading if the factors affecting lobbying are different from those affecting the amount, or if some factors influence these two results in different ways. A better approach is to model the decision to have (or report) lobbying

expenditures on all nonprofit organizations, here for about 18,000 501(c)(3), and a second equation for the amount for about 2500 nonprofits with positive amounts. That approach is followed in this research.

**What factors are associated with whether the 501(c)(3) reports lobbying expenditures?**

**Lobbying Expenditure Reported =  $B_0 + B_1\text{fund\_direct} + B_2\text{fund\_indirect} + B_3\text{fund\_govt} + B_4\text{fund\_prog} + B_5\text{fund\_mem} + B_6\text{size} + B_7\text{size}^2$  if class==3**

**Given the 501(c)(3) reports lobbying expenditures, what factors are associated with the extent of this expenditure reported?**

**Amount of Lobbying Expenditure Reported =  $B_0 + B_1\text{fund\_direct} + B_2\text{fund\_indirect} + B_3\text{fund\_govt} + B_4\text{fund\_prog} + B_5\text{fund\_mem} + B_6\text{size} + B_7\text{size}^2$  if class==3&negative==0&size<3000**

The null hypothesis is that reporting lobbying expenses is independent from the variables of funding sources and size. I am hypothesizing that increases in all sources of funding and the size of the organization will make the organization more likely to lobby and more likely to report higher lobbying expenditures.

### **Dependent Variable**

Lobbying expenses as reported on the IRS Form 990 is the dependent variable to show the presence and extent of advocacy activity. Lobbying expenses are found in two different locations on IRS Form 990. Line 1 in Part III of the Schedule A Supplement (directed to 501(c)(3) organizations only) asks for the total expenses paid or incurred in connection with lobbying activities.<sup>2</sup> This is the source chosen for these regression models. Lobbying expenses are also listed on Line 85 in Part VI, but this section is only for organizations classified as 501(c)(4), (5), or (6) and are reporting over \$2,000 of in-house lobbying expenditures. Since over 70 percent (18,086 out of 25,803) of the organizations represented within this data set were categorized as 501(c)(3), the previous source was chosen.

### **Independent Variables**

The independent explanatory variables for the two-regression analysis will be revenue received from the five major sources of funding and the size of the organization.

The size of the organization is measured by the report of the total amount of expenditures, as reported on Line 17 of the first page. I expect the regression to

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<sup>2</sup> Line 1, Part III of Schedule A reads as follows: "During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If 'Yes,' enter the total expenses paid or incurred in connection with the lobbying activities."

show that the size of the organization has a large and statistically significant impact on both whether the organization reports lobbying expenditures and the amount of the expenditures that are reported.

Direct public support includes funds that are received directly from the public. These funds include amounts received from individuals, trusts, corporations, estates and foundations, and funds raised by outside professional fundraisers. These funds also include contributions and grants from public charities and other exempt charitable organizations. Since this category of direct public support includes a variety of sources in itself, the literature is varied on the expectations for the results of this variable. Support from individuals, trusts, and estates are shown to have a positive impact on lobbying expenditures, but funding from entities such as foundations show a negative impact on lobbying activity. I expect direct public support to have a small but statistically significant impact on the presence of lobbying activities, but a large and statistically significant impact on the extent of lobbying activities for those that lobby.

Indirect public support includes funds received indirectly from the public through federated or another fundraising organization, such as the United Way, as well as from affiliated organizations. This does not seem to be a major source of funding, and it is not discussed much in the literature. I do not expect this variable to have a statistically significant impact on whether lobbying activities are reported, but a small impact on the extent of lobbying reported, as I believe increased funds in any manner will increase the amount of lobbying.

Government contributions are grants provided by the government for the purpose of allowing the organization to provide a service for the direct benefit of the public. Because of the many regulations associated with government-regulated funding, I expect this variable to have a large and statistically significant negative impact on whether lobbying efforts are reported, as well as a statistically significant impact on the amount of lobbying reported. The literature suggests these expectations as well, as the receiving organization is less likely to lobby when given government funding.

Program service revenue is income earned by the organization by providing a service that benefits a client, and the client pays for this service. Many times, the income is earned by providing a government agency with a service or facility that benefits that agency, such as Medicare or Medicaid payments to a nonprofit hospital. Taking this into consideration, I expect this variable to have a statistically significant negative impact on whether lobbying expenses are reported and the extent of these expenditures, much like for the same reasons stated above.

Membership dues and assessments are fees received by the organization from members who have an expectation of receiving benefits from the membership. Membership dues without receipt of any benefits are included in direct public support. Since the purpose of lobbying is to promote the benefit of causes, especially endorsed by passions of members, I expect the membership variable to have a very

high statistically significant impact on whether an organization lobbies. I expect this variable to have a low statistically significant impact on the extent to which the organization lobbies, as the amount spent on lobbying depends more on the funding availability through streams such as direct public support rather than simply on funding from the number of members, but funding amounts are assumed to always have an impact on the amount of lobbying since funds are what is necessary to lobby.

I assume that this study will be able to add to Naylor's study of how different funding sources impact the reporting of advocacy funding to show how much of an impact the size of an organization has on the amount of funding as well. By being able to understand whether the size impacts the advocacy funding, we will be able to see whether advocacy funding is mainly used by organizations of a certain size. As well, this study will acknowledge the question that if an organization does lobby, do the same factors influence the amount of lobbying expenditures reported.

Naylor's study showed that the source of funding does have an impact on the presence of advocacy funding, especially in regards to direct public support ( $P=0.008$ , 99%), indirect public support ( $P=0.035$ , 95%) and program revenue ( $P=0.089$ , 90%). Therefore, I hope that this study will show a trend of large, 501(c)(3) organizations more likely to spend on advocacy, especially if they are mainly funded through direct public support. I also assume that more amounts of funding will increase the amount of lobbying, and larger organizations will spend more.

### Variables Excluded

There are a variety of other sources of revenue identified in Part I of IRS Form 990, including interest from savings and other investments, rents, sales of assets, and special events. These sources do not seem relevant to the research question, and many of the organizations within the sample did not report revenues in these categories. A test regression performed with these variables showed no statistical significance, and they have been excluded from the regression analysis.

Another way to control for size is to create dummy variables for small, medium, and large nonprofits. That loses the variation within the small, medium, and large categories. That changes the results in important ways, so the categories do not work.

## Analysis and Findings

### Analysis of Regressions

While the data set held 25,803 observations, it showed that 70.09 percent of these observations (18,086) were classified as 501(c)(3), 7.91 percent were 501(c)(9), 6.72 percent were 501(c)(6), showing that most of the sample was taken from organizations that are more regulated on lobbying activities.

**Table 2: Organization Types and Percentages within Given Data Set**

<b>Organization Type</b>	<b>Number of Organizations</b>	<b>Percentage</b>
501(c)(3): Charitable, Educational, Religious, etc.	18,086	70.09%
501(c)(4): Social Welfare, Civic Leagues, etc.	1,254	4.86%
501(c)(5): Labor, Agriculture, Horticulture	1,065	4.13%
501(c)(6): Business League, Chamber of Commerce etc.	1,734	6.72%
501(c)(7): Social and Recreational Clubs	1,308	5.07%
501(c)(8): Fraternal Beneficiary Societies and Assns	316	1.22%
501(c)(9): Voluntary Employee Beneficiary Association	2,040	7.91%
<b>Total</b>	<b>25,803</b>	<b>100.00%</b>

Out of the 18,086 501(c)(3) organizations, 2,542 reported any lobbying expenses, and these ranged between \$1 and \$11 billion. Therefore, the dummy variable anylobbying showed that the 2,542 organizations that reported lobbying expenditures greater than zero were all within the 501(c)(3) categorization.

The data from nonprofits found on Form 990s present some well-known problems. Some nonprofit organizations report negative values of funding that cannot be negative, such as government funding or program funding. Investments can result in negative returns, so negative totals are possible, but everything occasionally is negative for inexplicable reasons. Such cases are few in number but highly influential in regressions. A total of 18 such observations are dropped in this research.

Second, some observations are very large, up to \$29 billion in size (such as Kaiser Hospital Foundation or the BBC). These observations create extreme non-linearity and change the regression results, with a handful of observations changing results from over 18,000 nonprofits. The nonprofits with size over \$3 billion were dropped, which eliminated 13 observations.

Another way to control for size is to create dummy variables for small, medium, and large nonprofits. That loses the variation within the small, medium, and large categories. That changes the results in important ways, so the categories do not work. These research decisions make a difference to the results, but with Form 990 data some response to the unusually large and small and negative financial variables is unavoidable.

*Table 3: Reports of Lobbying Expenditures*

Lobbying Expenditure Reported =  $B_0 + B_1\text{fund\_direct} + B_2\text{fund\_indirect} + B_3\text{fund\_govt} + B_4\text{fund\_prog} + B_5\text{fund\_mem} + B_6\text{size} + B_7\text{size}^2$  if  $\text{class} = 3$  &  $\text{negative} = 0$  &  $\text{size} < 3000$

Regression Statistics	
Number of Observations	18,054
F(7, 18,046)	578.80
Prob > F	0.00
R-squared	0.1833
Root MSE	0.3137

This regression had a sample  $n$  of 18,054 nonprofit organizations. The F-Statistic shows that the regression is statistically significant. The R-squared value of 0.1833 shows that this regression explains 18 percent of the variability in whether nonprofits report lobbying expenses.

(anylobbying)	Coef.	Std. Err.	t	P> t
<b>Direct Public Support</b>	0.00098	0.00013	7.49	0.00
<b>Indirect Public Support</b>	0.00018	0.00007	2.79	0.005
<b>Government Grants</b>	0.00021	0.00012	1.83	0.067
<b>Program Revenue</b>	0.00067	0.00009	6.95	0.00
<b>Membership Fees</b>	0.00675	0.00078	8.65	0.00
<b>Size</b>	0.00086	0.00009	9.01	0.00
<b>Size Squared</b>	-5.22e-17	1.57e-08	(33.34)	0.00
<b>Constant</b>	0.07828	0.00254	30.76	0.00

**\*Note:** Results were scaled into the millions of dollars for reports of funding and size, but lobbying expenditures were scaled into the thousands of dollars.

The null hypothesis for this regression was that the dependent variable of whether a nonprofit reported lobbying expenses is independent of the variables of size and funding sources. According to our regression analysis, we reject the null hypothesis. Whether a nonprofit reports lobbying expenses is not independent of the size and funding sources. For direct public support, the  $t$  value of 7.49 is significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenses ( $t = 7.49, p < 0.0005$ ). For indirect public support, the  $t$  value of 2.79 is significant at the 5 percent level, showing that we are 95% percent confident that it affects the reporting of lobbying expenses. ( $t = 2.79,$

p<0.005). For program revenue, the t value of 6.95 is significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenditures (t=6.95, p<0.0005). Membership fees show a t value of 8.65 and are significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenditures (t=8.65, p<0.0005). Size, with a t value of 9.01, is significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenditures (t=9.01, p<0.0005). Government grants (t=1.83, p<0.10) were not statistically significant to the reporting of lobbying expenditures.

Through these results, we see that the funding sources are not equal in the results of how funding affects the reporting of lobbying efforts. For example, while indirect public support is statistically significant in the regression analysis, the level of funding received from this source is much smaller than from direct public support. Before controlling for a size of less than 3 million, program revenue showed the greatest source of funding.

*Table 4: Extent of Lobbying Expenditures*

**Amount of Lobbying Expenditure Reported =  $B_0 + B_1\text{fund\_direct} + B_2\text{fund\_indirect} + B_3\text{fund\_govt} + B_4\text{fund\_prog} + B_5\text{fund\_mem} + B_6\text{size} + B_7\text{size}^2$**   
**if class==3&negative==0&size<3000**

Regression Statistics	
<b>Number of Observations</b>	2,529
<b>F(7, 2521)</b>	220.55
<b>Prob &gt; F</b>	0.00
<b>R-squared</b>	0.3798
<b>Root MSE</b>	314.53

This regression had a sample  $n$  of 2,529 nonprofits that all reported lobbying expenses greater than zero. The F-statistic shows that the regression is statistically significant. The R-squared value of 0.3798 shows that this regression explains about 38 percent of the variability in the amount of lobbying expenses reported.

(lobexp)	Coef.	Std. Err.	t	P> t
<b>Direct Public Support</b>	3.12384	0.21439	14.57	0.00
<b>Indirect Public Support</b>	11.39029	0.40619	28.04	0.00
<b>Government Grants</b>	-1.45311	0.24716	-5.88	0.00
<b>Program Revenue</b>	0.01735	0.15962	0.11	0.913

<b>Membership Fees</b>	0.33862	0.87710	0.39	0.699
<b>Size</b>	0.20622	0.16567	1.24	0.213
<b>Size Squared</b>	-0.00009	0.00002	-4.78	0.00
<b>Constant</b>	38.49516	8.24539	4.67	0.00

**\*Note:** Results were scaled into the millions of dollars for reports of funding and size, but lobbying expenditures were scaled into the thousands of dollars.

The null hypothesis for this regression was that the dependent variable of whether a how much a nonprofit reported in lobbying expenses is independent of the variables of size and funding sources. According to our regression analysis, we reject the null hypothesis. The amount of lobbying expenditures reported by a nonprofit is not independent of the size and funding sources. Across the board, larger nonprofits and any increases in funding increase the amount of lobbying expenditures reported. For direct public support, the t value of 14.57 is highly significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenses ( $t=14.57, p<0.0005$ ). For indirect public support, the t value of 28.04 is highly significant at the 1 percent level, showing that we are 99% percent confident that it affects the reporting of lobbying expenses ( $t=28.04, p<0.0005$ ). Membership fees show a t value of 8 and are significant at the 1 percent level, showing that we are 99 percent confident that it affects the reporting of lobbying expenditures ( $t=8.65, p<0.0005$ ). Government grants ( $t=-5.88, p>0.20$ ), program revenue ( $t=0.11, p>0.90$ ), and membership fees ( $t=0.39, p>0.60$ ) were not statistically significant to the reporting of lobbying expenditures. Size shows a very interesting relationship with a statistically significant negative relationship at the 1 percent level ( $t=4.78, p<0.0005$ ).

Size holds a statistically significant positive effect on doing lobbying, but a negative effect on the extent of lobbying efforts if they do it. Size doesn't make much of a difference at lower levels of size, but it has a significant impact at higher levels. In general, larger organizations are more likely to report lobbying expenditures, and if they do, they report a large amount. The probability of lobbying increases as the size increases. Eventually the probability of lobbying tops out, but the probability of the amount of lobbying continues to grow with size. Small entities may lobby but they don't lobby much if they do. Therefore, the variable of size has complicated impacts.

The effect of size of nonprofit organizations on lobbying is the same for doing any or for the amount. In each case, the larger the nonprofit, the more likely and the larger the amount they will report. In each case, the effect has diminishing marginal effect as nonprofits become larger. That is, after a point greater size no longer increases the probability or the amount. For example, for small amounts of lobbying, a 501(c)(3) organization would the lobbying itself, but when the size became great enough, a separate entity might be spun off to do the lobbying. Another explanation would be that an organization desiring to lobby might need a sufficient size to do so.

Having reached that size, the marginal effect would be smaller. So this would increase the number of nonprofits lobbying up to a point.

### Analysis Limitations

This study attempted to also see which organizations filed the full IRS Form 990 and which filed the IRS Form 990 EZ, as it was assumed this may have an effect on how the data was reported. Since the lobbying expenses dependent variable was pulled from Schedule A, it was assumed that this would not have a statistically significant impact. Given the data provided, we were unable to determine which organizations had filed whichever specific form. It was determined that some organizations that filed the Form 990 EZ did report lobbying expenditures, so it is even more likely that the type of Form 990 filed does not have a statistically significant impact on whether or not the organization reported lobbying expenditures. The type of form filed may possibly have more of a correlation with the amount of lobbying expenditure reported, given that the organization did report lobbying activity.

Attempts at separating the observations into three categories (small, medium, large) proved to be difficult, as there was a small amount within the “large” category that made the group not homogeneous enough for useful analysis. Therefore, a cap of \$3 million in lobbying expenditures was arbitrarily chosen, dropping 13 observations with very large amounts of reported lobbying expenditures. These observations were representative of very large healthcare-related entities. These data seemed correctly reported, as they received almost all of their funding from program revenues, but this did not provide a good model to analyze the rest of the dataset.

For Form 990 data, it must be taken into consideration that there may be many inaccuracies in reporting. Since there is no tax paid to the IRS by these organizations, there is less incentive for the IRS to check these forms. Even if certain numbers are incoherent, they often do not send these back. This also shows the importance of the accountability created by making these documents available to the public. As well, large entities, such as the large healthcare systems, are more likely to be checked, so these are probably more accurate. In theory, reports of funding should be positive. As such, I dropped 18 observations that reported negative funding. For example, one observation reported -\$180,322 in indirect funding, and this is impossible. Even these few observations may interfere with estimations and any nonlinear model can be extremely sensitive.

As well, the data does not differentiate between the purposes of lobbying for each organization; lobbying for social change would be more controversial than lobbying for future funding, so it may be more sensitive to funding source influences and the time commitment of lobbying.

## Conclusions and Recommendations

Nonprofit organizations dedicated to mission and enabling people to participate fully in democratic society, make a significant difference in how we care for one another. The analysis of this data shows that nonprofits are more likely to report lobbying expenditures if they are a larger organization or receive funding from direct support, indirect support, program revenue, and membership fees. Out of nonprofit organizations that do report lobbying expenditures, these reports are likely to be larger with any amount of increased funding. After controlling for the extreme organizations that are very large and report large amounts of lobbying expenditures, it seems that program revenue and membership fees do not have as big of an impact on how much is reported as they do on whether an organization reports.

This research has shown that there is a size and funding source impact on whether nonprofits report lobbying expenditures and the amount that is reported. The literature provides a good understanding of the reason for and methods for nonprofit advocacy, but much more study can be done. Most authors identified a lack of accurate empirical data as problematic, as there are ambiguous definitions of advocacy.

For future study, I recommend using reporting from Form 990 Part Vi line 85 for 501c4-6 to see if classification has an impact on reporting. By using lobbying expenditures from Schedule A, only for 501c3 organizations, my study was narrowed to only 501(c)(3) organizations. It would also be very helpful to focus on a specific sector of 501c3 organizations to ensure a homogeneous sample. For example, the largest organizations reporting were mainly all education and health related entities. If the category of 501(c)(3) was broken down into even more specific categories, analysis may be more specified. The separation into these categories and the assurance of accurate filing of each form would be far more labor intensive as it would require direct contact with each organization included in the study, but the collected data would be more accurate.

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