

# Funding Faith-Based Organizations

A BACKGROUND PRIMER FOR ARIZONA GRANTMAKERS



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As a result of training provided by federal and local governments, faith-based organizations (FBOs), especially those pervasively religious organizations, are becoming more sophisticated in seeking funding for their social service activities. Many are now exploring how to approach local governments, foundations and corporations for funding.<sup>1</sup> Given the possibility that Arizona funders may see an increase in applications from FBOs, we thought it might be helpful to provide some background information on this topic.

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## Current Role of FBOs in Delivering Social Services

The Bush Administration asserts that faith-based organizations, and particularly religious congregations, are already actively involved in delivering social services to the needy. Because they are more tightly embedded in their communities, they know community needs better than other organizations and can more effectively address their needs. Therefore, advocates argue that channeling public funds to FBOs, including congregations, can be an effective way to administer welfare.

Research by Professor Mark Chavez, at the University of Arizona, challenges many of the common assumptions about the role of FBOs in social service delivery.<sup>2</sup>

- Approximately 57% of the 350,000 congregations in the U.S. surveyed in 1998 report some type of social service activity. However, only a small percentage (10%) actually does concerted social service work in such areas as health, education, domestic violence, substance abuse, mentoring or work/training. In addition, only a small percentage of those congregation members actually participate in social service activities.
- Only 6% of the congregations surveyed have at least one staff person devoting one-fourth of their time to social services.
- Most congregations engage in short-term projects like preparing food for the hungry on holidays or building houses for Habitat for Humanity rather than treating the long-term needs of the poor.
- While congregations in poor neighborhoods are often more involved in social service delivery, such congregations often have middle-class members who drive in from the suburbs. In 20% of the congregations, at least 25% of members live more than a 30-minute drive from where they worship, suggesting they are not as embedded in the communities they serve as first thought.

While the majority of congregations may not be heavily involved in the delivery of social services, congregations located in low-income urban neighborhoods tend to be more heavily entrenched. And in some inner city neighborhoods that are seriously underserved by secular nonprofits, congregations can represent a powerful resource for delivering badly needed social services like after school programs for children and youths.

A study of FBOs and secular social service agencies in New York City demonstrates that a continuum of program activities exists. "At one extreme are a set of services, such as right to life counseling, food banks, services to prisoners, ex-offenders and their families, and hospice care that appear to be in the religious domain and are largely unchallenged by secular organizations. At the opposite end...are civil and legal rights activities, family planning, employment training, and economic development that are covered almost exclusively by secular agencies."<sup>3</sup>

The evidence points to definite specializations and complementary services. Another researcher, David Campbell, suggests that the role of faith-related organizations is better seen as supplemental and complementary to the government effort but at the same time is not limited to achieving governmentally ascribed objectives.<sup>4</sup>


## Effectiveness of FBOs

While there well may be service niches best served by FBOs or secular nonprofits, between these two ends of the continuum lies a substantial array of services where religious and secular organizations often compete for increasingly scarce government resources. According to Mark Ragan, Senior Fellow at the Rockefeller Institute of Government, funders sensitive to issues related to performance and outcomes must consider the efficacy of services and the track record of service providers when determining which to fund.<sup>5</sup>

One of the yet unanswered questions relates to the relative effectiveness of services provided by FBOs compared to services provided by secular organizations. Asserts Ragan, "For all the interest in the topic,

and all the anecdotal stories of accomplishment by individuals and individual organizations, there remains little systematic evidence on the comparative effectiveness of faith-based and other social service providers, and virtually no evidence that demonstrates how differences in performance connect to the faith character of service organizations.”<sup>6</sup>

In the absence of systematic evidence of the comparative effectiveness of FBOs, it is helpful to consider what research data is available. Preliminary research indicates that foundation partnerships with FBOs can produce significant results. Take, for example, the Youth Education for Tomorrow (YET) Program designed to enroll faith-based schools, churches and community organizations in Philadelphia in operating an innovative, best-practices-based literacy program. The program was developed by Public and Private Ventures (P/PV) and funded by The Pew Charitable Trusts. Preliminary results indicate that in the first 18 months of operation, nearly 1000 children who were reading more than 2 years behind grade level had enrolled. Children who attended the YET program for 6 months or more (about 100 sessions) vaulted 1.9 years in reading ability. Those who came to fewer than 100 sessions registered an average gain of 1.1 grades.<sup>7</sup>



**Preliminary research indicates that foundation partnerships with FBOs can produce significant results.**

One of the current limitations faced by many FBOs is their lack of capacity. For example, results from a survey of NYC social service providers indicate that most small FBOs lack the staff, agency infrastructure, and evidence of performance to qualify for contracts or grants.<sup>8</sup> Clearly, funders choosing to work with FBOs will want to evaluate the capacity of the specific groups they wish to work with and find ways to address any concerns they have.

A number of funders have discovered that by providing training and technical assistance along with some funding to inner city congregations, they can realize significant improvements in targeted inner city neighborhoods. As a Program Director at the James Irvine Foundation explains, “We’ve gone to congregations because that is where the people are collaborating voluntarily to make things better in their neighborhoods. It is also where the poor people are...too it is where the newcomers are...Congregations often provide both physical space for meetings and the inspiration for inclusive dialogue.”<sup>9</sup>

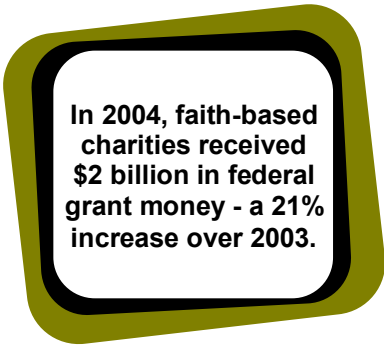
In the end, those convinced of the importance of expanding the role of faith-related organizations in service delivery should work to identify the useful roles that different FBOs can play in local planning and service delivery networks. Campbell suggests that leaders concentrate on “how the resources of faith-related organizations can expand the capacity of local networks to develop meaningful support relationships with a broader range of clients... rather than focusing the debate on an alleged choice between more efficient and less efficient sectors.”<sup>10</sup>

## Current Sources of Funding

Most nonprofits, including FBOs, receive funding from several sources. For the sector as a whole, the largest source of nonprofit income is derived from fees charged for goods and services, including licensing fees. Government spending, contracts and service reimbursement accounts for around 36%, and private giving and philanthropy account for about 10%.<sup>11</sup> The smaller FBOs have historically relied on program fees and private contributions from congregation members, with little or no funding from government or foundations.

## Government Funding

During his first term in office, the Bush administration aggressively pursued implementation of Faith-Based and Community Initiative. Although not successful in getting Congress to pass legislation that would substantially increase funding to FBOs, the President has used the regulatory process, executive orders, and other administrative actions to effectively encourage government funding of services provided by faith-based organizations.



**In 2004, faith-based charities received \$2 billion in federal grant money - a 21% increase over 2003.**

Based on White House estimates, the Bush administration has been very successful in funneling money to these organizations. In 2004, faith-based charities received \$2 billion (10.3% of total grants issued) in federal grant money - a 21% increase over 2003.<sup>12</sup>

This increase in funding can be attributed in part to communication efforts by The White House Office of Faith-Based Initiatives. They publish and distribute a catalogue of 150 federal grant programs to which faith-based and community organizations can apply. This catalogue also encourages faith-based and community groups to apply for the much larger pot of dollars the federal government provides to state and local governments.<sup>13</sup>

The White House also led the way in establishing the Compassion Capital Fund (CCF), which supports intermediary organizations that recruit and educate faith-based groups regarding federal grants. In 2003, the CCF received \$32 million in federal funding. The 21 intermediaries make sub-grants to faith-based and community organizations, train small faith-based and community groups in grant writing, staff development and management, and help them network and collaborate.<sup>14</sup>

The full extent of current federal funding for faith-based social services remains uncertain. The substantial majority of federal support for such purposes comes from contracts or grants awarded by state and local governments rather than Washington, and few public programs record whether or not contractors are faith-based.<sup>15</sup>

While federal funding for faith-based organizations has increased significantly over the past 4 years, the total federal dollars directed towards social service programs has not increased (and in fact has declined in real dollars). The result is that there are now many more nonprofit organizations (religious and secular) competing for a relatively static resource pool.

## **Foundation and Corporation Funding**

Despite recent increases in federal funding, the largest proportion of FBO revenues will likely continue to come from charitable donations. In 2004, Giving USA reports that religious organizations received nearly \$88 billion in annual tax-deductible donations from foundations, corporations and individual donors – the single largest share (36%) of the more than \$240 billion contributed in that year.

Unfortunately, information on foundation and corporate funding of faith-based organizations is limited. The best source is research conducted by The Roundtable on Religion and Social Welfare Policy, which is a research project of The Rockefeller Institute of Government. One study of large private and community foundations (total annual giving of \$1 million or more) suggests that a substantial percentage (12%) expressed interest in funding both social services and religiously affiliated organizations. An examination of the grants issued by the 50 largest “faith friendly” foundations indicates they provided \$68.8 million to support faith-based social services in 1999 and 2000. This represents around 3% of the total annual philanthropic giving for these foundations.<sup>16</sup> Little is known about the giving patterns of smaller foundations, but it is likely that their grants to faith-based organizations are significant.

The analysis also found that most foundations do not have general restrictions that would exclude religiously affiliated social service providers. Among those foundations that had published limitations on religious grantees, restrictions that limit sectarian activity, forbid proselytizing, or limit activities with an exclusive religious purpose are most common.<sup>17</sup>

Another study by the Capital Research Center of the 10 largest U.S. corporations shows that three explicitly banned giving to faith-based organizations while three funded only non sectarian activities.<sup>18</sup> The Roundtable of Religion and Social Welfare Policy is currently in the process of generating additional data on corporate giving to FBOs.

## Individual Contributions

While many secular nonprofits rely on government grants for up to 35% of their total revenues, most faith-based organizations involved in social service activities, especially the smaller ones, currently receive the bulk of their revenues from individual contributions and program fees. In 2004, 83% of American adults donated money to one or more nonprofits. Individual contributions currently represent over 75% of total charitable contributions made in the U.S., and much of that goes to religious organizations.

A recent Chronicle of Philanthropy study indicates that religion propels relatively high levels of giving. For example, residents in counties in Utah and Montana with a high percentage of Mormons contribute between 19%-27% of their discretionary income to charities, much of it to religious organizations. In contrast, taxpayers in the East gave only 4.2% of their discretionary income to charities and only 2.7% to churches and charities. The national average for contributions is 5%.<sup>19</sup>

However, a closer look at the data reveals that not all religious groups are equally generous. While the average amount of money donated to churches was \$895 per donor in 2004, Protestants continue to give more generously to their churches than do Catholics. Protestant adults gave an average of \$1304 to churches in 2004, compared to \$547 given by the typical Catholic. The most generous donors of all, however, were evangelicals, who averaged \$3250 in church giving.<sup>20</sup>

A special report by Independent Sector finds that Americans who give to or volunteer with religious congregations give more time and money than those only involved in secular charitable activities. The beliefs, values, attitudes, and commitments of those who contribute to religion translate into high levels of generosity to other causes as well.<sup>21</sup>

While some congregations, especially located in wealthier communities, may have opportunities to significantly increase individual contributions from their members, those located in poor neighborhoods don't have that option. Thus, if they want to expand their social service activities, they will be forced to explore other sources of funding including government, foundations and corporations.

### **FACTOIDS: Tax Exempt Status of Churches and Religious Organizations**

- Churches and religious organizations qualify for exemption from federal income tax under IRC section 501(c)(3) and are generally eligible to receive tax-deductible contributions.
- Churches that meet the requirements for tax exempt status are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.
- Unlike churches, religious organizations that wish to be tax exempt generally must apply to the IRS for tax-exempt status unless their gross receipts do not normally exceed \$5,000 annually.
- Although not required to do so, many churches seek recognition of tax-exempt status from the IRS because such recognition assures church leaders, members, and contributors that the church is recognized as exempt and qualifies for related tax benefits.
- The IRS lists organizations that are qualified to receive tax-deductible contributions in IRS Publication 78, Cumulative List of Organizations Described in Section 170(c) of the Internal Revenue Code of 1986. A copy of this report can be downloaded at [www.irs.gov](http://www.irs.gov). Note that only those organizations that have applied for recognition of tax-exempt status are listed.

## Potential Roles for Public and Private Foundations

Many, including the White House and the Working Group on Human Needs and Faith-Based and Community Initiatives are recommending that foundations and corporations modify their rules which limit contributions or restrict grant applications from FBOs.<sup>22</sup> Indeed, some have argued that private-sector institutions are as important, - if not more important - than the public sector in funding faith-based human services. Barbara J. Elliot, founder of the Center for Renewal, argues that “because of the current interpretation of the establishment clause of the First Amendment, Government can only fund the secular part of an FBO’s mission...If it is faith that lets faith-based efforts change lives more deeply than their secular counterparts, only private donors can strategically foster the part of faith-based programs that make them work.”<sup>23</sup>

A number of private foundations that have developed strong partnerships with faith based communities shared their recommendations for how foundations can help FBOs.<sup>24</sup>

- Encourage and work with neighborhood clusters instead of individual churches.
- Help each house of worship identify its strengths.
- Help individual houses of worship develop community councils.
- Provide start up resources for cluster development that incorporate small churches.
- Provide resources for ongoing technical assistance and training.
- Teach clusters to develop 501 (C)(3)s.
- Encourage clergy to come to the table and be part of the foundation plan.

Those foundations considering establishing working relationships with religious organizations should be aware of potential pitfalls. One expert on the subject suggested it was important to note the significant culture clash that can exist between the two parts of the sector. He suggests that foundations and religious groups often don’t share the same language, expectations or behaviors. Whereas foundation leaders focus on plans, business models, overhead, etc., these concepts are foreign to congregational life. While foundations seem to have issue-centered missions, congregations tend to have person-centered missions.<sup>25</sup> These and other differences can lead to disappointment and skepticism, if they are not fully understood.

## Conclusion

Personal income taxes in the U.S. have fallen from 10.5% of Gross Domestic Product (GDP) in 1980 to 8.8% in 2003. Likewise corporate taxes have declined from 4% of GDP in 1965 to 1.5% of GDP in 2003. Americans now pay less in total taxes than 28 other members of the Organization for Economic Co-Operation and Development (OECD).<sup>26</sup>

While tax revenues continue to decline, the needs of the most vulnerable of our citizens increase. From 2002-2003, the number of people below the poverty threshold grew by 1.3 million. In 2003, there were 35.9 million people in poverty in the U.S. – a rate of 12.5% - an increase from 12.1% in 2002.<sup>27</sup> In addition, the gap between the wealthiest and poorest Americans continues to grow. In 2001, the top 20 percent of households for the first time raked in more than half of all income, while the share earned by those in the middle was the lowest in nearly 50 years.<sup>28</sup> Faith-based organizations are often the primary or only social service provider in certain poor neighborhoods.

### F·A·S·T·E·N

Funders interested in pursuing this topic in more depth should explore a valuable web resource, The Faith and Service Technical Education Network (FASTEN), which is an initiative of The Pew Charitable Trusts. [www.fastennetwork.org](http://www.fastennetwork.org) offers informational resources and networking opportunities to faith-based practitioners, private philanthropies, and public administrators who seek to collaborate effectively to renew urban communities. FASTEN actively identifies best practices in faith-based services and multi-sector collaboration and produces and disseminates educational materials for practitioners in the public and private sectors.

The current Administration's policy of lowering taxes, and thus reducing the size of government (sometimes referred to as "starving the beast"), means that nonprofits cannot realistically look to government for any substantial increase in future revenues. While changes implemented by the Bush administration make it easier for faith-based charities to apply for federal dollars, they face stiff competition from the nearly 1 million secular charities also vying for a shrinking pie. They can expect equally tough competition for the much smaller pot of corporate and foundation dollars.

FBOs may be able to increase revenues somewhat by encouraging their members to give more. The data does indicate that people of faith tend to make significantly higher contributions to both religious and secular charities. Even among Protestants, identified as the most generous religious group, only 7% donate the recommended 10% of their income to religious purposes. Most Catholics donate substantially less and might be encouraged over time to increase their giving. However, such potential increases in individual contributions cannot be expected to make up for ongoing cuts in government funding for social service needs.

Although limited data makes it unclear how effective faith-based charities are relative to their secular counterparts, case studies indicate that they can and do play an important role in the delivery of social services, especially in low-income neighborhoods, underserved by secular nonprofits. Many foundations have established successful relationships with religious organizations and their experiences provide valuable lessons for others to consider. Several questions are worthy of further exploration:

- How might the resources of faith-related organizations expand the capacity of local networks to develop meaningful support relationships with a broader range of clients?
- How might foundations and faith-based communities work together to encourage the U.S. Government to increase funding for social services?
- What can funders learn from existing partnerships between foundations and FBOs that can enhance future working relationships?

### The Arizona Story

- Arizona, in 2002, ranked 38<sup>th</sup> in terms of average contribution per itemizer (\$2592). The U.S. average is \$3029.
- Increasing the contribution per Arizona itemizer to the national average would produce an increase in charitable contributions of \$379.96 million ( $\$437 \times 869,479$ ).
- Total number of charitable tax-exempt organizations in Arizona in 2002 = 11,500
- Total number of religious congregations in Arizona in 2000 = 3,300
- Total number of public and private foundations in Arizona in 2002 = 855
- Total contributions by all private foundations in Arizona in 2002 = \$141,450.038

A survey of Arizona Grantmaker Forum members suggest that of the 37 organizations that responded, 19 fund faith-based charities, however, all but three of these required the group to show IRS recognition of its 501(c)(3) status. The percentage of an organization's grants budget that went to faith-based charities ranged from a high of 60% to a low of around 2%, with the average being about 5 to 10%.

## Endnotes

- <sup>1</sup> See article on Phoenix Faith-Based Summit at <http://www.arizonagrantsmakersforum.org/docs/membersexchange/Members-July2005.htm>
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- <sup>4</sup> Campbell, David, "Beyond Charitable Choice: The diverse service delivery approaches of local faith-related organizations." *Nonprofit and Voluntary Sector Quarterly*, 2002, 31(2)
- <sup>5</sup> Ragan, Mark, "Faith-Based v.s Secular: Using Administrative Data to Compare the Performance of Faith-Affiliated and other Social Service Providers," December 2004, [http://www.religionandsocialpolicy.org/docs/research/Benchmarking\\_report\\_12-23-04.pdf](http://www.religionandsocialpolicy.org/docs/research/Benchmarking_report_12-23-04.pdf)
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- <sup>7</sup> Hangley, Bill and Wendy S. McClanahan, *Mustering the Armies of Compassion in Philadelphia*, Public/Private Ventures, February 2002, pg. ii
- <sup>8</sup> Seley and Wolpert, pg. 9
- <sup>9</sup> Dyrness, Grace Robert and Andrea E. Dyrness, *Faith Works: Religious Communities Building Neighborhoods*, pg. 8
- <sup>10</sup> Campbell, pg. 225
- <sup>11</sup> Raymond, Susan, "Drilling Down: Deeper revenue Sources for Nonprofits", *OnPhilanthropy*, July 9, 2001
- <sup>12</sup> [www.whitehouse.gov/government/fbcj](http://www.whitehouse.gov/government/fbcj)
- <sup>13</sup> Farris, Ann, et al, *The Expanding Administrative Presidency: George W. Bush and the Faith-Based Initiative*, The Roundtable on Religion and Social Welfare Policy August 2004, pg. 15
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- <sup>15</sup> Farris, pg. ii
- <sup>16</sup> Scott, Jason D., *Private-Sector Contributions to Faith-Based Social Service*, The Roundtable on Religion and Social Welfare Policy, June 2003
- <sup>17</sup> Ibid, pg. 14
- <sup>18</sup> Yablonski, Chrisopher, *Patterns of Corporate Philanthropy: A Mandate for Reform*, Washington, D.C., Capital Research Center, 2001
- <sup>19</sup> "How Americans Give," *Chronicle of Philanthropy*, May 1, 2003
- <sup>20</sup> "Americans Donate Billions to Charity, But Giving to Churches Has Declined," *Barna Update*, April 25, 2005
- <sup>21</sup> *Faith and Philanthropy: The Connection Between Charitable Behavior and Giving to Religion*, Independent Sector, 2004
- <sup>22</sup> Scott, pg. 1
- <sup>23</sup> Scott, pg. 2
- <sup>24</sup> "Faith Partners Transform Communities," Seminar offered at the Annual Council on Foundations, held in Dallas, in April 2003 <http://www.fastennetwork.org/qryArticleDetail.asp?ArticleId=FA5B94E5-5EF3-4F49-9F04-9FFD406954E4>
- <sup>25</sup> *Getting the Relationship right: Helping Congregations and Foundations Understand Each Other*, The Alban Institute, July/August 2002.
- <sup>26</sup> Citizens for Tax Justice, *International Tax Comparisons, 1965-2003*, April 21, 2005
- <sup>27</sup> "U.S. poverty rate up in '03, census reports," *The Washington Times*, August 27, 2004
- <sup>28</sup> "As Income Gap Widens, Uncertainty Spreads," *Washington Post*, September 19, 2004

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