

**Center**  
FOR NON-PROFITS



*Helping organizations build a better New Jersey*

# Is Non-Profit Property Tax Exemption Sound Public Policy?

Presented to the

**Seton Hall University School of Law**

April 15, 2016

# About the Center for Non-Profits

## Advocacy/Public Education

- Promoting New Jersey's non-profit community
- Public policy
- Research (non-profit statistics, trends)

## Capacity Building

- Management/compliance assistance
- Workshops/seminars/Webinars
- Publications

## Member Services

- E-newsletters, resource lists, info/referral
- Cost saving benefits

# Why Taxing Non- Profits is a Bad Idea

**NOT a one-sided relationship**

**Significant social AND economic contributions**

**A small piece of the exemption puzzle**

**Non-profits already subsidize government**

**Devastating impact**

**A better approach**



# Essential programs and services

- Food pantries
- Afterschool programs
- Museums
- Hospitals
- Environmental protection
- Disaster relief
- Education
- Mental health
- Public journalism
- Faith-based organizations
- Philanthropy
- Drug/alcohol prevention
- Housing
- Senior care
- Human service
- Social justice

**Touching every aspect of our lives**



# Economic impact

- 30,000 501(c)(3) orgs in NJ
- 314,000 employees
  - 9.8% of the state's private work force
  - More than construction, transportation, public utilities, finance and insurance industries
- \$38 billion in expenditures annually
- 1.6 million volunteers providing \$5.3 billion in service

## Sources:

*IRS Business Master File of Exempt Organizations; Urban Institute National Center for Charitable Statistics; U.S. Bureau of Labor Statistics; Corporation for National and Community Service; Independent Sector*

## Economic impact

- Vital programs/services filling essential needs
- Fueling economic vitality (jobs + means to obtain/retain/advance employment)
- Reducing government burdens, **SAVING** government resources
- Making towns attractive places to live, work and visit



30 Years  
JESS

STRONGER  
TOGETHER



THE \$12 BILLION IMPACT  
of Community Development  
Corporations in New Jersey

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of Community Development  
Corporations in New Jersey

Since 1989



# THE ARTS MEAN BUSINESS

Did you know that the non-profit arts industry in New Jersey generates over \$1.5 billion each year? This total includes direct spending by arts organizations (payroll, goods and services) and related spending by visitors to cultural events (meals, lodging, parking). Combined, this activity also generates over \$40 million each year in state income and sales taxes.



# Smithsonian, “20 Best Small Towns in America” 2012

actively sought towns with “high concentrations of museums, historic sites, botanic gardens...and other cultural assets.”

Non-profits  
make  
communities  
better

## # 3

### Red Bank

## # 12

### Princeton



Image from [www.trentonian.com](http://www.trentonian.com)



Most  
exempt  
property is  
NOT  
non-profit!

**Government-owned property** (public property, public schools, etc.) accounts for nearly **three times** the exempt property value as charities, churches and private schools **combined**.

Tax-exempt property owned by charities, churches and non-public schools accounts for **only 2% of all property values** in the state.

Source: NJ Department of Community Affairs, Division of Local Government Services, *2015 Abstract of Ratables*

Challenges  
on the rise

# NOT just hospitals and universities

- Supportive housing
- Child care
- Social service
- Arts
- Nursing homes
  
- Camden
- Red Bank
- Lawrenceville
- Newton
- And many others

# A slippery slope?

Hospitals

Universities

Larger non-profits

Medium and small non-profits

Increased  
non-profit  
vulnerability

Increased  
non-profit  
vulnerability

## Third-Party Standing / Burden of Proof

- **Any resident** of municipality or county may challenge tax assessor's determination
- Low filing fee
- Minimal grounds needed to bring challenge
- November 2015 Tax Court ruling: Burden of re-proving exemption rests with non-profit
- Makes organizations of **all sizes** – particularly unpopular or controversial ones – vulnerable to arbitrary challenges

NON-PROFITS  
ALREADY

SUBSIDIZE THE  
GOVERNMENT.

# Subsidizing the government

- Providing essential programs & services
- Government offloading programs and services onto non-profits
- Contracts that don't cover full costs
- Needlessly burdensome contract application, reporting and monitoring requirements
- Late payments, delayed paperwork
- No COLAs; or funding cuts



## Nonprofit-Government Contracts and Grants\*

### 2012 Government Experience Compared to Previous Year



### Problems with Government Contracts and Grants

PROBLEM	NOT A PROBLEM	SMALL PROBLEM	BIG PROBLEM	STATE RANK**
Payments do not cover full cost of contracted services	25%	26%	50%	1
Complexity of/time required by application process	19%	32%	49%	5
Complexity of/time required by reporting process	25%	34%	41%	12
Government changes to contracts/grants midstream	55%	18%	27%	22
Late payments (beyond contract specifications)	47%	25%	28%	9

### Nonprofits Reporting Limitations on Full Costs in Government Contracts and Grants

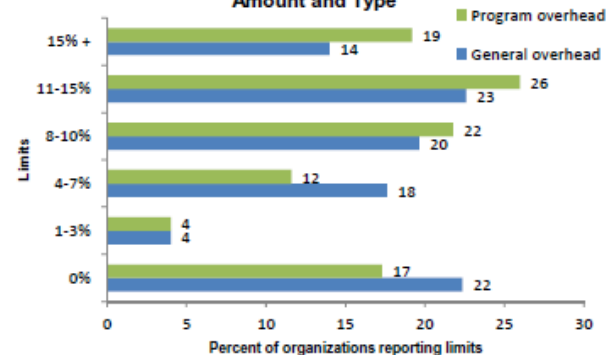
Percent of nonprofits reporting limits on program administrative/ overhead  
**55%**

Percent of nonprofits reporting limits on general administrative/ overhead  
**61%**

Contracts require matching or sharing costs  
**22%**

Grants require matching or sharing costs  
**66%**

### Organizations Reporting Overhead Limits, by Limit Amount and Type\*\*\*

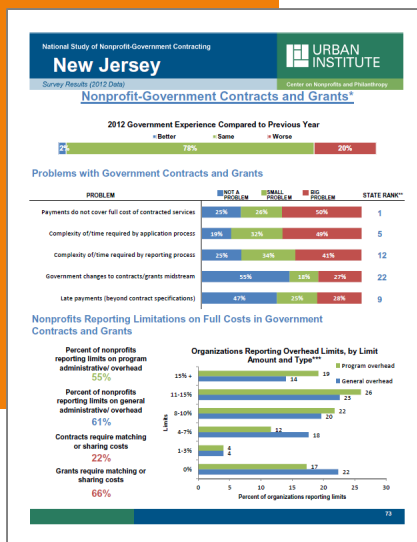


Subsidizing  
the  
government

# Nationwide survey

## New Jersey

- **“Worst in the nation”** in terms of government contracts that don’t cover the cost of services
- **61% of respondents** reported that governments arbitrarily put caps on administrative or overhead costs – (e.g., accounting, technology, maintenance) – that are required for non-profits to be effective.



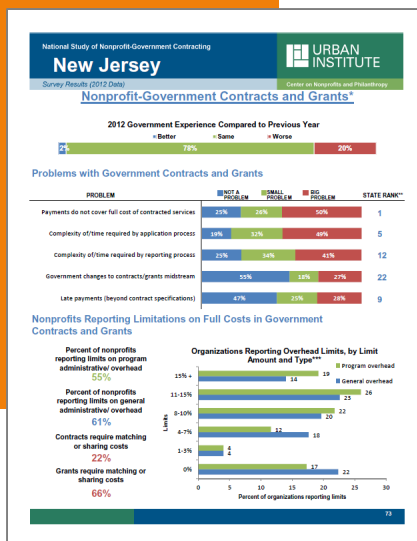
Source: Urban Institute, *National Survey of Nonprofit Government Contracts and Grants – State Profiles, 2014*

Subsidizing  
the  
government

# Nationwide survey

- 55% reported that governments reimburse for admin/overhead costs at **10% or less**.
- National studies suggest “normal” overhead for both FOR-PROFIT businesses and non-profits is **25% to 35% or more**.
- **Capping payments at 10% or below is forcing non-profits to subsidize governments.**

## Subsidizing the government



Non-Profit  
Resources  
are  
Already  
Stretched



# GROWING DEMAND

Rising  
Need

National and NJ  
surveys:

**3/4 to 4/5** of  
survey respondents  
consistently report  
**rising demand**  
for services.

This upward trend  
has been reported  
by non-profits for  
**numerous**  
**consecutive years.**

2016 NJ Non-Profit  
Survey:

**nearly 75%** of NJ  
respondents said  
**demand had risen in**  
**2015.**

**78%**  
projected that  
**demand would**  
**continue to rise in**  
**2016.**

Sources: Nonprofit Finance Fund, *State of the Sector* surveys, 2015 and prior years; Center for Non-Profits, *New Jersey Non-Profits: Trends and Outlook* survey reports, multiple years

Rising  
Need

## UNMET NEED

**Over half**  
of national survey  
respondents said they  
**could not meet**  
the increased demand.

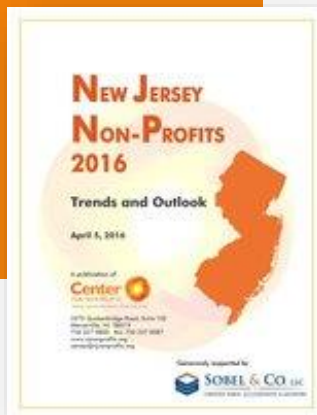
Source: Nonprofit Finance Fund, *State of the Sector* survey, 2015



# Resources Not Keeping Pace

**42%** of survey respondents reported **funding increases** in the previous fiscal year...

...but **65%** reported **expense increases** in the same period.

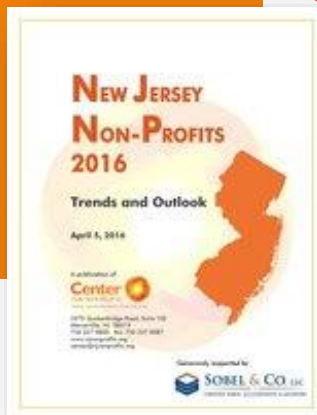


Source: Center for Non-Profits, *New Jersey Non-Profits: Trends and Outlook, 2016*

# Resources Not Keeping Pace

**35%** of all 2016 respondents – and 44% of organizations with budgets of \$1.5 million or more - reported that **expenses exceeded support & revenue** in the previous fiscal year.

**31%** of respondent organizations said they have **no cash reserve**.



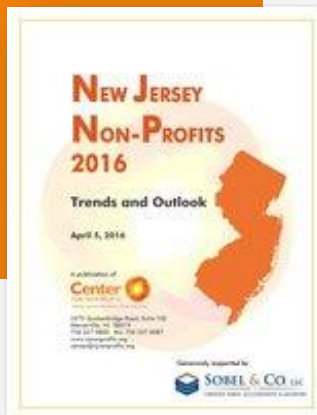
Source: Center for Non-Profits, *New Jersey Non-Profits: Trends and Outlook, 2016*

# Resources Not Keeping Pace

**70%** of respondents predicted **expense increases** in 2016.

**78%** predicted **rising demand** in 2016

...**only 47%** expected that **overall funding** would increase.



Source: Center for Non-Profits, *New Jersey Non-Profits: Trends and Outlook, 2016*



A  
BETTER  
APPROACH

Think REGIONALLY

Work TOGETHER

REDUCE RISKS of  
arbitrary challenges

Stay  
in  
touch



*Helping organizations build a better New Jersey*



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# THANK YOU

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