An Examination of Nonprofit Lobbying Expenditures

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Executive Summary

Nonprofit organizations are characterized by both their programmatic and advocacy activity. Nonprofits are called on not only to provide essential services for many citizens, but also to advocate on the behalf of the issues impacting the populations they serve. An important advocacy activity engaged in by nonprofits is lobbying which is defined as communication directed at a legislative body with the intent to influence a legislative outcome (Raffa, 2000). Nonprofit lobbying is regulated by the Internal Revenue Service (IRS) which ensures that lobbying does not constitute a substantial part of a nonprofit's budget. Statistics show that few nonprofits report lobbying expenditure and that reported amounts account for a very small percentage of an organization's budget.

Literature suggests that the source of a nonprofit's revenue may play a significant role in predicting lobbying levels. Of special interest in the literature is the relationship between government funding and lobbying levels. Government funding is perceived to have a negative influence upon lobbying expenditure levels. This study seeks to examine the relationship between government funding and nonprofit lobbying expenditures while taking into consideration the influence of organizational capacity. Using 990 Form data from the IRS website and regression analysis, I examine the relationship between three revenue sources (government grants, program service revenue, and membership dues) and reported expenditures for lobbying.

The study finds the revenue variable of government grants to have a statistically significant impact on both a nonprofit organization's decision to lobby and the dollar amount of lobbying. Conclusions must be regarded with care as the study faced limitations in data and design, as discussed at the end of this paper. A recommendation to overcome these limitations with future research is also included later in the paper.

Introduction

Nonprofits play an important dual role in American society. On one hand, nonprofits are providers of an ever-growing list of services to some of society's most vulnerable citizens. On the other hand, nonprofits are advocates for these same citizens, searching for ways to impact issues through legislative and administrative influence. Advocacy takes many forms including education activities and lobbying. Lobbying is by far the most contentious, due to the tax-exempt status of nonprofits. Using the special tax exempt status as the basis for argument, critics equate lobbying by nonprofit organizations as subsidization of special interests with taxpayer money.

One response to this concern has been the creation of policies by Congress and the Internal Revenue Service (IRS) to limit the levels of nonprofit lobbying expenditures. First, in 1934, Congress introduced the Revenue Act of 1934, which gave the IRS the ability to withhold tax deductibility from organizations where "substantial part of the activities is carrying on propaganda, or otherwise attempting, to influence legislation" (Berry and Arons, 2003). The burden of determining the definition of substantial is left to nonprofits as the IRS has failed to quantify the meaning of substantial. The 1976 Tax Reform Act, presented an optional alternative to the "substantial part" test, known as the 501(h) election. In contrast to the "substantial part" test, the 501(h) election clearly identifies permissible lobbying levels through the use of sliding scales for direct legislative lobbying and grassroots lobbying (Berry and Arons, 2003). The sliding scale is presented in Table 1.

Table 1. Lobbying Expenditure Test Sliding Scale

The Expenditure Test Under the 501(h) Election	
Exempt Purpose Expenditures	Lobbying Non-Taxable Amount
Not over $500,000	20% of exempt purpose expenditures [As defined in Section 4911(e)(1)]
Over $500,000 but not over $1,000,000	$100,000+15% of the excess of exempt purpose expenditures over $500,000
Over $1,000,000 but not over $1,500,000	$175,000 + 10% of excess of exempt purpose expenditures over $1,000,000
Over $1,500,000	$225,000 + 5% of the excess of exempt purpose expenditures over $1,500,000
Over $17,000,000	$1,000,000
Grassroots	25% of lobbying non-taxable amount.

Source: Raffa and Associates 2000

In addition to the IRS regulations, nonprofits are also subject to other regulations at all levels of government and sometimes even from foundations. For example, nonprofits receiving federal grants may not use this money to fund lobbying expenditures (Moody, 1996). However, these restrictions do not prevent nonprofit organizations from using other funding sources for lobbying purposes. Despite the legality of a certain amount of lobbying activity, scholars have found that few nonprofits report lobbying expenditures. In fact, in a study of a national sample of nonprofits, Berry and Arons, found that only 3.5% percent of nonprofits reported lobbying expenditures (2003). Similarly, Boris and Krehely reveal that less than 2% of 501(c)3 organizations reported lobbying expenditures (2002).

A pragmatic response to the observation of low lobbying levels is to question both the accuracy and significance of these findings. In fact, the Journal of Accountancy, cites failure to

complete required 501(h) election lobbying details as a common reporting error on Form 990 (Nevius, 2011). In addition, the media is full of inaccurate lobbying reports, such as the Los Angeles Times revelation that local nonprofit, L.A. Alliance for a New Economy, failed to report payments to registered lobbyists (Reyes, 2015). Inaccurate reporting aside, many scholars would argue the significance of these findings for two reasons. The first being that many nonprofits may possess an ambivalent attitude about advocacy as they choose to focus more on the provision of social services (Almog-Bar and Schmid, 2014). The second reason is that lobbying defined by tax code is restricted to legislative lobbying.

Legislative lobbying is defined as an attempt to persuade legislators to enact or not enact a bill (Raffa, 2000). Therefore, many activities such as developing policy positions on issues, encouraging administrative agencies to change their policies, or accepting a request to testify before a legislative committee are not considered lobbying by the IRS (Raffa, 2000). The scope of remaining permissible activity may be so great that nonprofits can effectively advance their advocacy agenda without engaging in legislative advocacy. Upon viewing the final draft of the 501(h) election in 1986, one Treasury Department official remarked, "I just looked at the regulations and said [to a colleague], 'There's nothing left that's lobbying" (Berry and Arons, 2003). These remarks along with the narrow definition of lobbying may lead some to conclude that current tax code policy serves to preserve and in some instances, amplify nonprofit lobbying.

Looking beyond accounts of inaccurate reporting, ambivalent attitudes, and the narrow definition provided by the written tax code, many scholars and practitioners seek additional explanations for the present levels of lobbying. There are currently many possible explanations in circulation, with nonprofit funding structure trends being cited as one of the more common themes. One such trend was the decrease in public funding by the government in the 1970s and

1980s. Kerlin and Pollak estimate that these cuts in public spending a loss of $38 billion for nonprofits outside the health care field (2011). Despite the overall decrease in public spending, the trend of government contracting of nonprofits for delivery of essential health and human services has remained intact (Almog-Bar and Schmid, 2014). The literature details many possible implications of these trends, including a reduced employee capacity to engage in lobbying. Another implication is perceived pressure from government funders to reduce the scope of advocacy activity including lobbying (Silverman and Patterson, 2011).

This study seeks to examine the influence of government funding source and organizational capacity on a nonprofit's reported lobbying expenditures. Additionally, this study will examine differences between nonprofit organization types to test the assumption put forth by Berry and Arons which states: "advocacy patterns differ significantly among different types of organizations" (2003). The literature will be surveyed to develop an understanding of the potential mechanisms of influence and the relationshipswhich facilitate them.

Literature Review

Nonprofit Advocacy

The word advocacy is often perceived as a nebulous term in the literature. Hoping to reduce the associated ambiguity, Reid proposes that advocacy is "a wide range of individual and collective expression or action on a cause, idea, or policy". In addition to the definition, Reid goes on to offer up this list of advocacy activities: "public education and influencing public opinion; research for interpreting problems and suggesting preferred solutions; constituent action and public mobilizations; agenda setting and policy design; lobbying; policy implementation, monitoring, and feedback; and election-related activity" (Reid 2000). Advocacy is especially

important in the nonprofit sector as it serves as a vehicle for "advancing common interests and values collectively" (Reid, 2000). One prominent example of this advocacy is the role of the March of Dimes Association in effectively lobbying for national new born screening efforts (Howse et. Al, 2006). Berry and Arons also highlight the importance of the nonprofit sector's role in policymaking with the argument that nonprofits provide political access and representation to a population who otherwise lacks the resources to participate (2003).

In contrast to the academic definition by Reid and colleagues, is the narrower definition emanating from the tax code. The tax code makes a clear distinction between what is considered advocacy versus lobbying. As defined in the context of the tax code, lobbying is "attempting to persuade legislators to enact or not enact a bill" (Raffa, 2000). The code further makes the distinction between direct and indirect lobbying. Direct lobbying is communication with a member of a legislative body for influencing legislation. Indirect lobbying such as grassroots lobbying is communication meant to influence legislation by "affecting the opinion of the general public" (Raffa, 2000).

Nonprofit-Government Relations

Nonprofits in the American experience date back to colonial times, making nonprofits just as old as the country itself (Hammack, 2002). Just as nonprofits have grown more complex from their original form of primarily being vested in religious organizations, so has the relationship between government and nonprofits. Originally the government was mainly responsible for legitimizing nonprofits through charters.

While the government still provides legitimization through granting tax-exempt status, it also plays very important roles in the political and financial arena. Of central importance to this

relationship is funding. In fact, the Urban Institute reports that nearly one third (32.5 percent) of nonprofit revenues in the year 2013 came from government funding in the form of grants and contracts (McKeever, 2015). Since the Johnson Administration in the 1960s, the government has looked to the nonprofit sector to provide an increased amount of services (Gronbjerg, 2001). The ushering in the "hollow state" of government, likewise has seen a proliferation of government awarded contracts (Milward and Provan, 2000). In addition to grants and contracts, government support comes in the form of vouchers, tax deductions, or special tax breaks to tax exempt organizations.

The literature is divided concerning the perception of this growing relationship between nonprofits and government. Many scholars view the relationship as mutual, with both parties receiving considerable benefits. Benefits to the government include the ability to deliver services in the absence of a market provider through nonprofit subcontracting, cost efficiency, and the ability to exercise authority and regulation (Frumkin and Kim, 2013). Benefits to the nonprofit sector include revenue stability and increased organizational resources to fulfill the mission (Almog-Bar and Schmid, 2014).

The other view in the literature is that government funding threatens the independence of the nonprofit sector and exerts pressure on its unique identity. For example, Frumkin and Kim report that nonprofit organizations receiving government contracts incur greater administration costs due to the need to become more professional and bureaucratic (2013). In a study of nonprofit contractors in New York, O'Regan and Oster found that government contracts significantly altered board behavior and composition to reflect the wants of the grantor in terms of compliance and regulation (2002). O'Regan and Oster also found that board members spend significant time contacting administrators (2002).

Proposed Mechanisms of Suppression

There are three broad themes in the literature to describe the possible mechanism of funding related lobbying suppression. These themes are perceptions of legal restrictions on political and lobbying efforts, funding constraints in the public and non-profit sector, and pressure of funders (Silverman and Patterson, 2011).

Under the Internal Revenue Code, 501(c) 3 charitable organizations are permitted to engage in direct and grassroots lobbying up to a certain level (Raffa, 2000). See **Table 1** for permitted levels. Along with the IRS restriction, organizations receiving federal funds are prohibited from using federal funds to lobby (Moody, 1996).

Despite this allowance and the ability to use private funds for lobbying, few organizations report engaging in lobbying and rarely come close to reaching the permissible levels (Naylor, 2011). Many scholars believe this behavior stems from a lack of organizational understanding of lobbying laws and poor efforts of the administering agency to communicate rules. In a national survey of nonprofit executive directors, Silverman and Patterson, found that 26.9% of executives perceived restrictions on lobbying with the use of private funds (2011). It has also been found that some funders relay inaccurate and intimidating messages of funding restrictions to recipients. For example, Head Start Agency administrators sent letters to local Head Start program providers with language that described advocacy as an activity that would compromise funding (Leech, 2006).

Funding constraints are a result of the significant decline of public funding since the 1970s and 1980s (Berry and Arons, 2003). To compensate for the decline, nonprofits have

seriously diversified their funding profile to include new sources such as fees for service and membership dues (Gronbjerg, 2001). This diversity requires greater coordinated development and fundraising activity to sustain revenue levels (Leech, 2006).

The final mechanism is the external pressure of funders on an organization to alter the scope of programmatic and advocacy activities. Resource dependency helps explain the willingness to respond to the funder. Resource dependence theory can best be summarized by the adage of "don't bite the hand that feeds you". Not wanting to jeopardize a funding source, the nonprofit may choose to reduce overall advocacy and refrain from advocacy, which may be viewed as unpopular by the agency. Leech confirms this view, by finding that nonprofits generally lobby less than similar non-exempt organizations (2006).

Proposed Mechanisms of Enhancement

The two primary mechanisms through which enhancement of lobbying may occur are monetary self-interest and government dependence on nonprofits. Monetary self-interest refers to the efforts of nonprofits to maintain revenue streams. Almog-Bar and Schmid find that organizations dependent upon government funding advocate for the preservation of funding streams (2014). Government dependence results in increased interactions with agencies. This interaction provides nonprofits with greater access to funders and thus more capacity to lobby or advocate. Increased dependence can also be interpreted as the nonprofit gaining leverage over grantor. This leverage can encourage nonprofits to mobilize affected persons to highlight the need of the service and possible retribution for not answering the wishes of the public (Chaves et al., 2004).

Research Design

This study seeks to apply Gronbjerg's assertion that composition of funding structure provides the context for organizational decision making to the concept of nonprofit lobbying. Specifically, it will be applied to two lobbying related decisions. These decisions along with the related hypotheses are listed below.

Null Hypothesis 1: Government funding source has no impact on a nonprofit organization's decision to engage in lobbying.

Alternative Hypothesis 1: Government funding source has a statistically significant impact on an organization's decision to engage in lobbying.

Prediction 1: I predict the direction of the statistically significant relationship to be negative.

Null Hypothesis 2: Government funding source has no impact on the amount of a nonprofit organization's lobbying expenditures (as measured in absolute dollars).

Alternative Hypothesis 2: Government funding source has a statistically significant impact on the amount of a nonprofit organization's lobbying expenditures (as measured in absolute dollars).

Prediction 2: I predict the direction of the statistically significant relationship to be negative.

Data Collection

The IRS classifies nonprofits using the National Taxonomy of Exempt Organizations, which separates nonprofits into twenty-six categories, each of which is represented by an alphabetic code. Past studies have focused mainly on human service organizations. In hopes of

also testing Berry and Aron's observation that advocacy patterns vary among different types of organizations, I chose to expand the scope of this study beyond human service organizations as well as reliance on a single category. This study focuses on the following five codes: B, E, F, G, H. These codes represent the broad categories of health (codes E, F, G, and H) and education (code B). A description of the codes as well as their representation in the sample is illustrated in **Table 2**.

The health and education sectors were chosen due to the sectors' broad representation in the nonprofit sector, funding diversification, and history of political activity. Regarding political activity, the Center for Responsive politics reports both health and education as top industries for lobbying expenditures with education lobbying totaling $1,514,194,951 and aggregate health care lobbying expenses being much greater (open secrets.org).

Table 2. Composition of Sample by Category

Data Composition			
Code	Category	Observations	Percentage of Sample
B	Education	16,066	39.89%
E	Health	20,874	51.82%
F	Mental Health Crisis and Intervention	1,658	4.12%
G	Disease, Disorder, and Genetic Diseases	865	2.15%
H	Medical Research	816	2.03%

All nonprofit organizations with gross receipts greater than $25,000 must file an annual return, the 990 form, with the IRS. Organizations that report lobbying expenditures in the return

must complete a supplemental form, Schedule C, to detail the scope and nature of the lobbying activities (IRS, 2016). As mentioned in the Introduction Section of the paper, nonprofits may report expenditures using the 501(h) election or by subjecting expenditures to the "substantial part". Due to data limitations this study will only examine expenditures reported using the "substantial part" method. Data is collected from the 990 forms which are published on the IRS website. Data was collected for the period of 2008 through 2012. This produced an initial sample of 40,279 observations.

The lobbying expenditure level as reported in Schedule C of the 990 is the dependent variable, and explanatory variables are divided into three categories: revenue, organizational capacity, and time.

Method

To test Hypothesis 1, I created a linear probability model to predict the likelihood of a nonprofit reporting lobbying expenditure. A binary dependent variable, *anylobby*, was created to represent if a nonprofit had reported any lobbying expenditure. This variable served as the dependent variable in the model.

$$Anylobby = \beta_0 + \beta_1 Total\ Rev + \beta_2 Gov\ Grants + \beta_3 Program\ Rev + \beta_4 Member + \beta_5 Comp + \beta_6 Employees + \beta_7 2009 + \beta_8 2010 + \beta_9 2011 + \beta_9 2012$$

To test Hypothesis 2, I used a multivariate linear regression model to regress the *lobbying expense* dependent variable on the explanatory variables. The model is based largely upon Naylor (2011).

$$Lobby\ Expense = \beta_0 + \beta_1 Total\ Rev + \beta_2 Gov\ Grants + \beta_3 Program\ Rev + \beta_4 Member + \beta_5 Compensation + \beta_6 Employees + \beta_7 2009 + \beta_8 2010 + \beta_9 2011 + \beta_{10} 2012$$

Explanatory Variables

The three categories of explanatory variables are: revenue, organizational capacity, and time. I chose the explanatory variables based on findings in the past literature. The linear probability model and the linear regression model utilized the same explanatory variables.

<u>*Revenue*</u>

The revenue variables are total revenue, government grants, program service revenue, and membership dues.

Total revenue is included to provide a control for the relative size of the organization in terms of resources. Additional control was instituted by logarithmically transforming the variables to minimize issues of skewness resulting from the presence of outliers such as hospitals. Almog-Bar and Schmid has found that wealthier organizations tend to lobby more (2014). As total organizational revenue increases, I expect both the probability of engaging in lobbying as well as the amount spent on lobbying to increase.

Government grants and contributions are described as funds provided by the government to the recipient organization for the direct benefit of the public. As providers of many services, healthcare organizations derive a considerable portion of revenue from government grants and contributions. Organizations receiving public funds are prohibited from using federal funds for lobbying purposes. Scholars have found that this stipulation produces both confusion and intimidation among nonprofits. This in turn is thought to lead to decreased levels of lobbying. Therefore, I predict increased government grants will result in both decreased likelihood of lobbying and decreased amounts of lobbying activity. For the same reason stated for the total revenue variable, the government grants variable was logarithmically transformed.

Program service revenue includes revenue generated through the provision of programs that justify the organization's existence. Included in this revenue source are programs that the organization provides directly to the government. A common example includes Medicaid revenue paid to the organization for delivery of services. While there is no simple way to divide out government program revenue and other revenue, the service orientation of the sectors leads one to assume that government program revenue is frequent among these groups. Due to the presence of government revenue, I predict the same relationships as the ones described for government grants. This variable was also logarithmically transformed.

Membership dues denote revenue generated from membership. Membership involvement varies widely across nonprofits. Some membership dues are paid with the expectation of the receipt of benefits while other dues serve as a means of sustaining an organization's operations. Silverman finds that a stable source of grassroots resources may counter the pressure exerted by institutional forces such as government entities (2011). Leech also finds that nonprofit organizations with healthy memberships also tend to be more effective at lobbying (2006). Therefore, I predict that as membership dues increase, the probability of engaging in lobbying as well as the amount spent on lobbying will increase. This variable was also logarithmically transformed.

Table 3. Revenue Variables and Hypothesized Impact on Lobbying Behavior

Variable	Data Source	Hypothesis	Reference
Total Revenue (log total revenue)	990	Organizational capacity is a predictor of lobbying effectiveness. Revenue is a proxy for capacity. As revenue increases, the lobbying level is expected to increase.	Leech (2006)
Government Grants (log total revenue from government grants)	990	Perceived threat of losing tax exempt status leads to reduced advocacy activity. As revenue increases, the lobbying level is expected to decrease.	Silverman and Patterson (2011)
Program Service (log total revenue from Program Services)	990	Increased programming results in a greater portion of resources being directed to administration and away from advocacy. As revenue increases, the lobbying level is expected to decrease.	Gronbjerg (2001)
Membership Dues (log total revenue from Membership Dues)	990	Stable sources of member resources can counter institutional pressures to reduce advocacy. As membership revenue, the lobbying level is expected to increase.	Silverman and Patterson (2011)

Table 3 highlights the revenue variables, the data source, hypothesized relationship with the lobbying expenditure level, and the referenced literature.

Organizational Capacity

The organizational capacity variables are number of employees and compensation of top employees. Leech finds that organizational capacity plays a key role in shaping the lobbying activity of an organization (2006). Organizational capacity can be thought of as in terms of size, resources, and experience.

Number of employees serves as a proxy for organizational resources. Almog-Bar and Schmid et al finds the scope and intensity of activity increases with the number of workers (2014). Therefore, as the number of employees increases, the lobbying level is expected to increase.

The variable of compensation for top employee serves as a proxy for experience. Poderis reports that experience is a primary salary determinant (2015). Berry and Arons find that possessing an experienced executive director is a factor of nonprofit lobbying effectiveness (2003). As the compensation of top employees increase, the lobbying level is expected to increase. The variable of compensation was logarithmically transformed.

Table 4. Organizational Variables and Hypothesized Impact on Lobbying Behavior

Variable	Data Source	Hypothesis	Reference
Employees	990	The scope and intensity of activity increases with the number of workers. As the number of employees increases, the lobbying level is expected to increase.	Almog-Bar and Schmid (2014)
Compensation	990	Expertise is a factor of lobbying effectiveness. Assume compensation is a reflection of expertise. As the compensation of top employees increase, the lobbying level is expected to increase.	Berry and Arons (2003)

Table 4 highlights the organizational characteristics variables, the data source, hypothesized relationship with the lobbying expenditure level, and the referenced literature.

Time Variables

Variables for each year of data collection were included for control purposes. Dummy variables are assigned to the years 2009, 2010, 2011, and 2012. It is possible that event unique to a certain year such as a natural disaster or major piece of legislation would produce unusual variable levels. I predict that time will be statistically significant.

Summary Statistics Linear Probability Model for NTEE Code B with "Substantial Part"

The intent of the study was to examine the probability of reporting lobbying for each code (B,E,F,G, and H) as well as the corresponding expenditure reporting method (substantial part and 501(h) election) for each. This resulted in a total of 10 linear regression models. All models except for the combination of education (B) and substantial part failed to produce any significant results. Summary and regression statistics are featured for the education and substantial part model.

Several observations concerning the sample can be made from the summary statistics. The mean probability of any lobbying being reported was 0.116, which revealed that most organizations in the sample report zero lobbying expenditures. Total revenue had a range (5,840,000,000-0). This range reflected the diverse group of organizations in the sample as well as the presence of large public universities. Of the funding sources, program service revenue exhibited the highest mean in absolute dollar amounts ($51,800,000) followed by government grants with a mean of $10,000,000 and membership dues with $49,351.79. This finding would suggest that program revenue was a primary funding source for many of the organizations while few organizations utilized membership dues. The high means reported for employees (920) and compensation ($853,548.10) reflected the large size of most organizations.

Table 5. Unlogged Summary Statistics for Linear Probability Model

Variable	Mean	S.D.	Min	Max
Anylobby	0.116	0.32	0	1
Total Revenue	81,300,000	307,000,000	0	5,840,000,000
Government Grants	10,000,000	66,500,000	0	1,450,000,000
Program Service	51,800,000	193,000,000	0	3,800,000,000
Membership Dues	40,351.79	636,520.60	0	48,200,000
Employees	919.64	2798.25	0	51,799
Compensation	853,548.10	2,515,290	0	232,000,000
2009	0.202	0.402	0	1
2010	0.206	0.405	0	1
2011	0.215	0.411	0	1
2012	0.222	0.416	0	1

Findings from Linear Probability Model

The regression, reported in Table 6, produced one statistically significant variable. These results both support and disconfirm predictions. The only statistically significant variable was government grants. The coefficient may be interpreted as each one percentage increase in government grants results in a 0.008% increase in the probability of an education nonprofit organization reporting expenditures. This variable was significant at the 0.05 level. Due to this finding, we reject the null hypothesis as government funding did exhibit a significant relationship. This confirms my prediction that funding source would have an impact. However, this disconfirms my prediction that the direction of the relationship would be negative, meaning government grants decrease the probability of reporting lobbying expenditures.

The variables of total revenue, total number of employees, compensation, membership dues, program service, and compensation of current officers and time are not statistically significant, contrary to my predictions. I had predicted that program service revenue would have a statistically negative impact. I had predicted the variables of total revenue, total number of

employees, compensation of highest officer, membership dues, and time to have a statistically

positive impact on lobbying.

Table 6. Regression Output for Linear Probability Model

Variables	Coefficient	Standard Error
Total Revenue	0.0001	0.0019
Log Government Grants	0.008**	0.004
Log Program Service	-0.0002	0.005
Log Membership Dues	-0.001	0.001
Employees	-0.0000004	0.000001
Log Compensation	-0.0004	0.00055
2009	0.0001	0.083
2010	0.0095	0.083
2011	0.0012	0.082
2012	-0.00015	0.008

Significance: ***$p<0.01$, **$p<0.05$, *$p<0.1$

Prob>F	0.5626
R-squared	0.0006

Summary Statistics Linear Regression

The intent of the study was to examine the extent of reporting lobbying for each code (B,E,F,G,

and H) as well as the corresponding expenditure reporting method (substantial part and 501(h)

election) for each. This resulted in a total of 10 linear regression models. All models except for

the combination of health (E) and substantial part failed to produce any significant results.

Summary and regression statistics are featured for the health and substantial part model.

Several observations concerning the sample can be made from the summary statistics.

First, it should be noted that summary statistics for the health category closely mirrored the

trends identified in the education category. The mean lobbying expenditure was $81,917.62 with

a maximum level of $17,300,000 and a standard deviation of $308,162.20. Total revenue had a

range of (31,700,000,000-1,341). This range reflected the diverse group of organizations in the

sample as well as the presence of large hospitals.

Of the funding sources, program service revenue exhibited the highest mean in absolute

dollar amounts ($184,000,000) followed by government grants with a mean of $2,246,444 and

membership dues with $8,730.46. This finding would suggest that program revenue was a

primary funding source for many of the organizations while few organizations utilized

membership dues. The high means reported for employees (1,414) and compensation

($1,757,759.00) reflected the large size of most organizations in the sample.

Table 7. Summary Statistics (Unlogged Variables) for Linear Regression Model

Variable	Mean	S.D.	Min	Max
Lobbying Expenditures	81,917.62	308,162.20	1	17,300,000
Total Revenue	197,000,000	634,000,000	1,341	31,700,000,00
Government Grants	2,246,444	21,200,000	0	869,000,000
Program Service	184,000,000	603,000,000	0	31,500,000,00
Membership Dues	8,730.46	307,573.8	0	24,900,000
Employees	1,413.89	3,164.69	0	69,433
Compensation	1,757,759	3,671,112	0	78,100,000
2009	0.202	0.402	0	1
2010	0.206	0.405	0	1
2011	0.215	0.411	0	1
2012	0.222	0.416	0	1

Findings Multiple Regression Model

The multiple regression, reported in Table 8, produced five statistically significant

variables. These results both support and disconfirm predictions. The first statistically significant

variable was government grants. The coefficient may be interpreted as each one percentage increase in government grants results in a 0.01% decrease in lobbying expenditures. This variable was significant at the 0.05 level. Due to this finding we reject the null hypothesis as government funding as measured by government grants did have an impact. This finding also supports my prediction that the direction of the relationship between government funding and lobbying expenditures would be negative.

The remaining four significant variables are the time control variables. This result confirms my prediction. All four variables are significant at the 0.001 level. However, as control variables, very little can be extrapolated to the overall relationship of lobbying expenditure. This is an area ripe for future study.

The variables of number of total revenue, number of employees, compensation, program service revenue, and membership dues are not statistically significant, contrary to my predictions. I had predicted that total revenue, number of employees, and compensation would increase an organization's lobbying expenditure amount. I had predicted that program service revenue and membership dues are not statistically significant.

Table 8. Regression Outputs for Regression Model

Variables	Coefficient	Standard Error
Total Revenue	0.04	0.05
Log Government Grants	-0.01**	0.004
Log Program Service	-0.033	0.042
Log Membership Dues	-0.005	0.012
Employees	0.000	0.000
Log Compensation	0.013	0.026
2009	-0.353***	0.083
2010	-0.344***	0.083
2011	-0.427***	0.082
2012	-0.448***	0.080

Significance: ***$p<0.01$, **$p<0.05$, *$p<0.1$

Prob>F	0.00
R-squared	0.0081

Findings Multiple Regression Expanded

The presence of hospitals and similarly large organizations in the sample produced concerns that results would be biased to favor a finding that larger organizations spend more. To address this concern, the multiple regression model was amended to present lobbying amounts as a percentage of an organization's total expenditures. Likewise, the revenue variables are presented as a percentage of total revenue. The variable total revenue was also omitted.

The amended model produced only one statistically significant result. The variable government grants was found to be significant at the 0.05 level. The coefficient may be interpreted as each additional percentage of total revenue coming from government grants, will result in a 0.585 decrease in the percentage of total expenditures dedicated to lobbying. This

finding further strengthens the results of the original multiple regression model, as government grants is significant in both models. The table of full regression statistics can be found below.

Table 10. Regression Outputs for Regression Model (Percentage)

Variables	Coefficient	Standard Error
%Government Grants	-0.585**	0.278
%Program Service	-0.362	0.242
% Membership Dues	-0.212	0.329
Employees	-0.0001	0.000
% Compensation	-0.037	0.076
2009	0.171	0.265
2010	-0.062	0.087
2011	-0.427	0.084
2012	0.056	0.192

Significance: ***$p<0.01$, **$p<0.05$, *$p<0.1$

Prob>F	0.0343
R-squared	0.0010

Conclusion

The findings of this study lead me to reject null Hypothesis 1, as a revenue source was found to influence the dependent variable. Government grants was shown to have a positive and significant impact on the probability of an organization belonging to the education category. One possible explanation for this finding could be that those organizations receiving government grants face a stronger incentive to report all expenditures due to the potential the threat of losing significant amounts of grant revenue. Another possible explanation is that those receiving government grants are simply more politically active. When considering much of this sample is comprised of public universities, this is a plausible explanation. A final possibility, coming from

the monetary self-interest theory, is that organizations receiving grants lobby to sustain grant revenue.

The findings of this study lead me to reject null Hypothesis 2, as a revenue source was found to influence the dependent variable. Increased revenue from government grants negatively impacted a health organization's lobbying levels. Hypothesis 2 was further strengthened by the results of the amended regression model, which exhibited a statistically significant negative relationship between lobbying expenditures and government grants. This finding is in support of literature asserting that government grants suppress lobbying activity. Possible explanations for suppression include perception of restrictions, pressure of funders, and the administrative burden of administering grants.

Conclusions of this study must be viewed cautiously. As noted in the findings only two of the twenty regression models produced any results. Therefore, it is possible that the two significant regression models are anomalies and that there does not exist a significant relationship between government grants and lobbying. In recognition of the weak findings, I am hesitant to derive any recommendations from the analysis.

Limitations and Areas for Future Study

There are data limitations to this study. First, this research was limited to examining nonprofit organizations belonging only to the health and education category. Health and education nonprofits make for good subjects of study due to their wide presence in the sector, dependence upon government funding, and lobbying tendencies. However, caution is warranted as a large number of hospitals and public universities comprise this category. By performing logarithmic transformations on the revenue variables, it is anticipated that the impact of outliers

such as hospitals is minimized. Regardless, it is not prudent to generalize the findings of this study to other nonprofit categories. Future studies should holistically examine the nonprofit sector.

A second limitation is the small sample utilized in this research. The small sample was unbalanced and lacked the variation to form a panel and conduct a fixed effects regression model. Future research should remedy this limitation by incorporating more nonprofit sector categories as well as by collecting data for a greater length of time. Future research should also emphasize the impact of time from the perspective of external cyclical events such as presidential elections and recession. As my original regression indicated, time exhibited a statistically significant effect upon lobbying expenditure. It would also be of interest to study the impact of a legislative agenda on lobbying reform such as the Istook amendments.

A third limitation is the lack of variables concerning organizational capacity and control. Factors such as the age of the organization and number of volunteers would have also served as suitable proxies for expertise and size. Controls for demographics characteristics and geography may be incorporated to further increase validity.

A fourth limitation concerns reverse causation. It is possible that the direction of the proposed relationship is reversed; meaning lobbying is driving government grants as opposed to grants suppressing lobbying. Future researchers should utilize tools such as lag variables to address potential reverse causation.

A final limitation is the character of the 990 form data. As mentioned in the introduction section, nonprofits may fail to report lobbying expenditures simply because they do not engage in the legislative lobbying that is recorded on the 990 form. Lack of reporting is also reflected in

the lack of variation in this study's regression model statistics. The data is also limited in that it

can only assess the amount of legislative lobbying rather than the proposed mechanisms that may

be influencing lobbying expenditure trends. Future studies should seek to examine the scope and

extent of all nonprofit lobbying by incorporating more qualitative methods such as interviews

with executives to further probe lobbying behavior beyond that of just legislative lobbying. A

survey instrument measuring various activities, perceptions restrictions, and organizational

characteristics may also prove helpful in this endeavor.

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