

Paying for Overhead

Patrick Rooney, Ph.D., Director of Research and
Professor of Economics & Philanthropic Studies


The Center on Philanthropy
AT INDIANA UNIVERSITY

INDIANA UNIVERSITY • PURDUE UNIVERSITY • INDIANAPOLIS

Celebrating 20 Years
MOVING PHILANTHROPY FORWARD SINCE 1987



The Study

Funded by the Aspen Institute, Nonprofit Sector Research Fund

- **Part One:** Survey of foundations' payment of and attitude toward nonprofits' overhead expenses.
- **Part Two:** Survey of educational and human services organizations' receipt and perceptions of overhead funding from foundations.
- **Part Three:** A series of six case studies of educational and social service organizations (not covered in this PowerPoint)



The Disconnect

- Case studies from the *Nonprofit Overhead Cost Study* show that having adequate overhead is critical for effectiveness.
- 2/3rds of human service & educational nonprofits reported inadequate overhead funding.
- Half said the reason was because foundations want to support programs, not administrative expenses.
- Yet, 69% of foundations indicated they fund overhead.
- Still, 64.5% of foundation reported they do not have a history of funding administrative costs.



Requesting Overhead Support

- 69% of foundation offer some type of overhead funding.
 - Half provide general operating grants
 - One-third provide unrestricted grants
- Half of all educational and human service organizations requested overhead funding in the past 3 years from foundations.
- Of the 50% requesting funding, 55% received some form of overhead support.
- Suggesting that while many foundations offer support, many nonprofits are not seeking it.

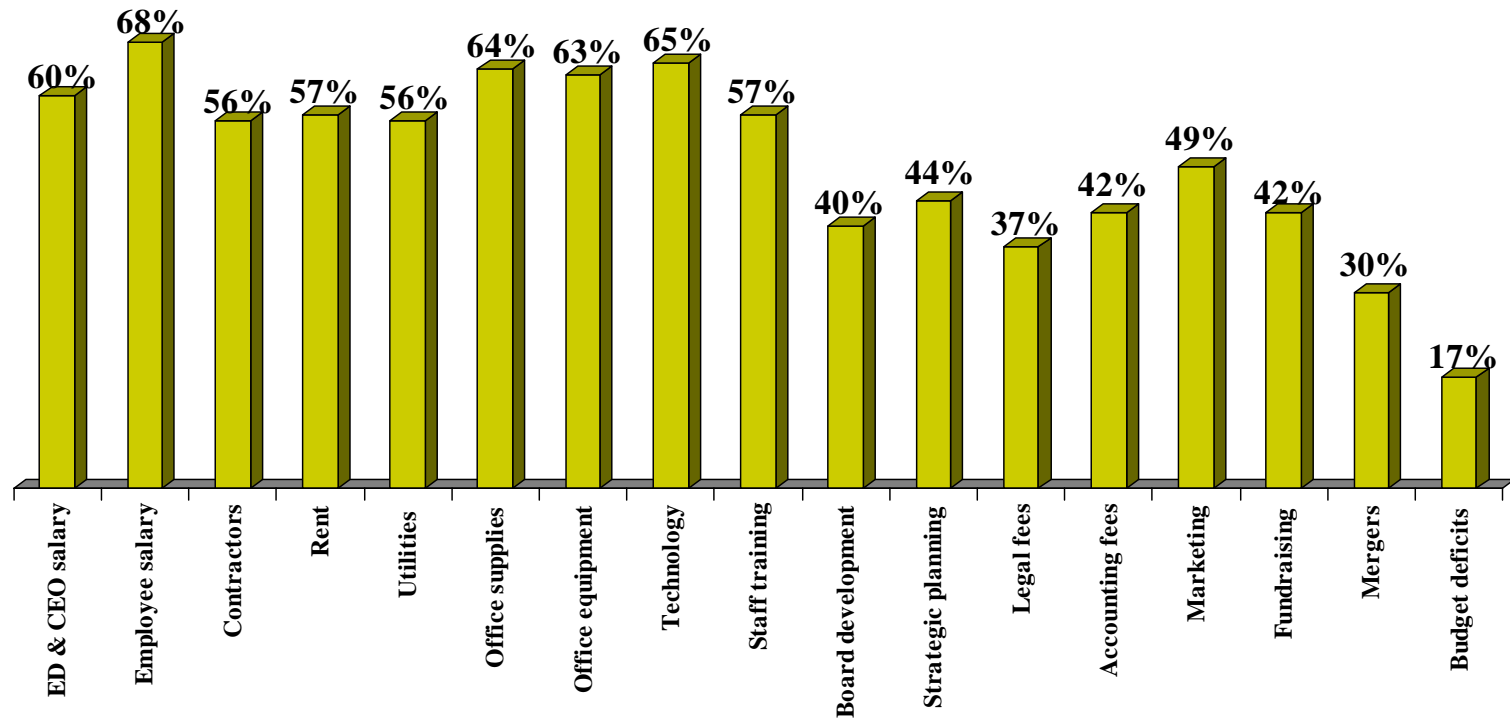


Foundation Survey: Statistics

- 3,595 surveys sent to foundations in January 2006
- Surveys sent with the Foundation Center's Foundation Giving Forecast Survey
- Received 710 responses
- 20% response rate

Nonprofits' Expenses Fnds. Fund

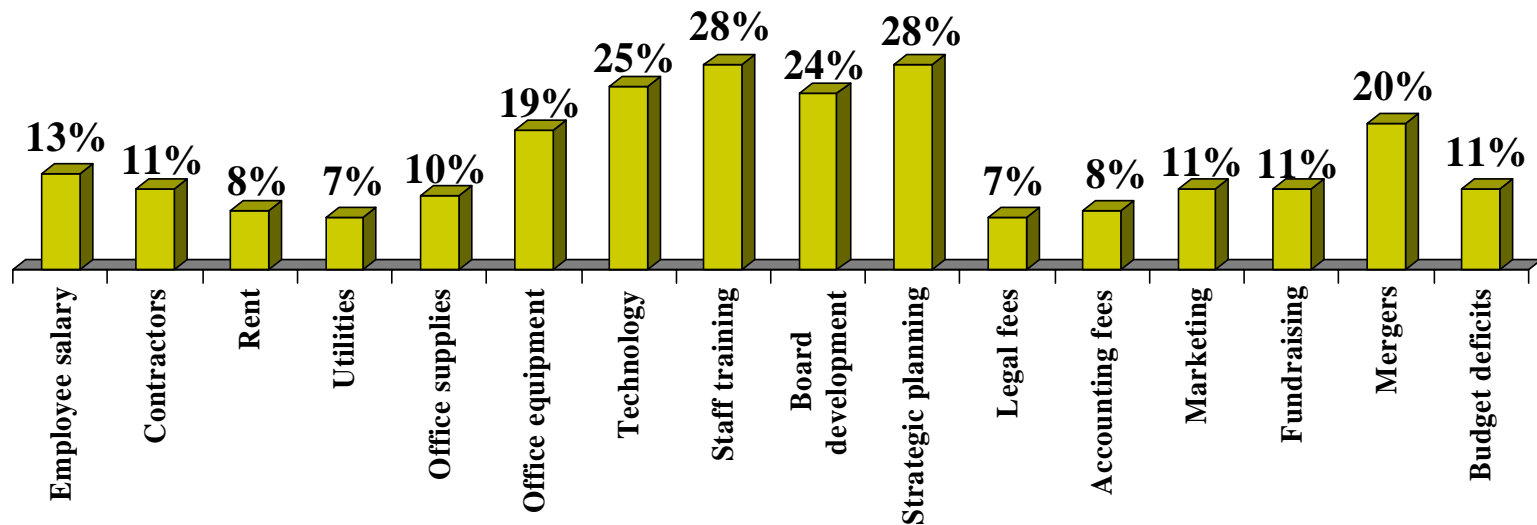
(if submitted as part of program costs)



Nonprofits' Expenses Fnds. Fund

(if submitted on their own as a proposal)

Foundations are much more likely to fund overhead expenses when they are included in a program budget.





How Much Overhead?

How Much Foundations
Permit Grantees to Request

	As a % of direct costs	As a set \$ amount
Mean	15%	\$23,750
Median	15%	\$20,000
Mode	10%	\$5,000

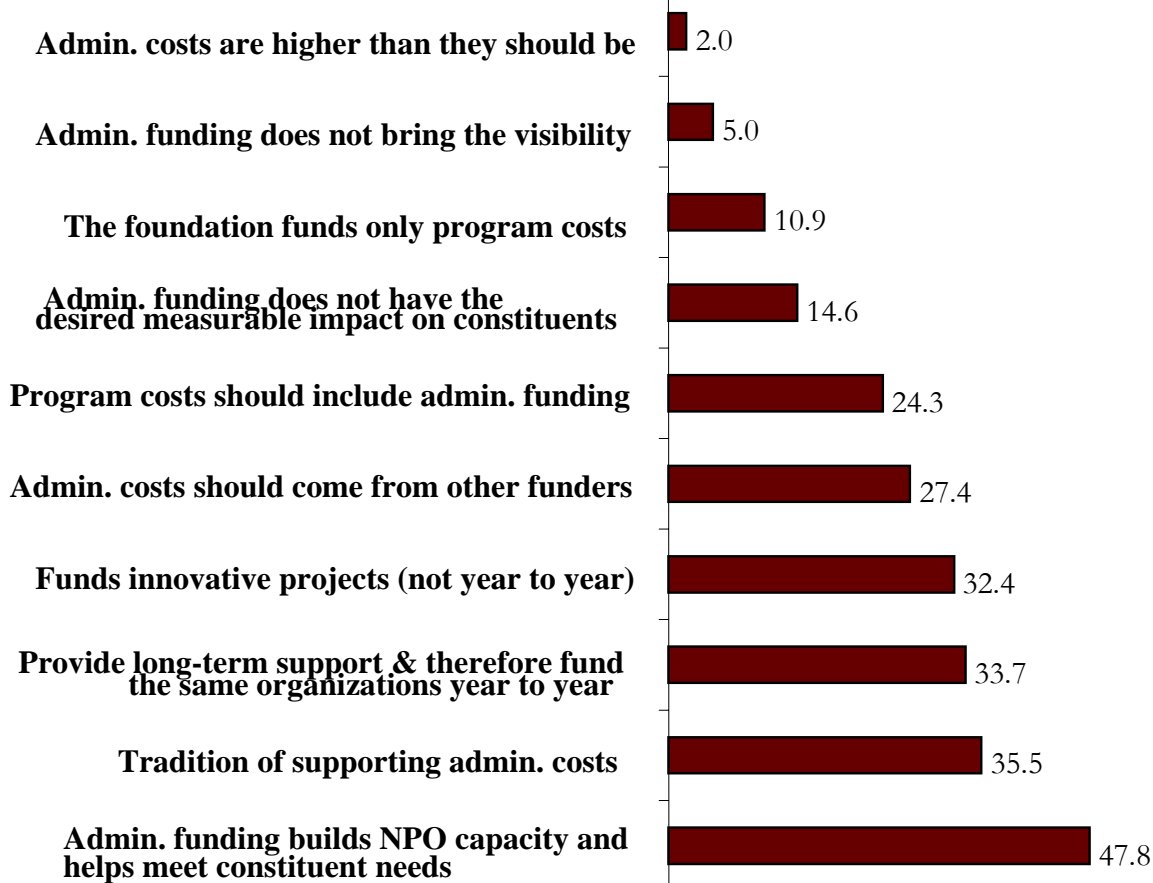


Fnds. that Fund Overhead

statistically significant results only

- ❑ Large foundations (give more than \$6.5 million a year)
- ❑ Young foundations (less than 10 years)
- ❑ Independent foundations (as opposed to community foundations)
- ❑ Local Foundations (as opposed to nationwide)
- ❑ Foundations that fund human service organizations (as opposed to public-society benefit groups)
- ❑ Foundations located in the West (as opposed to the North)

Foundation attitudes on NPO's Overhead (percentage reporting)



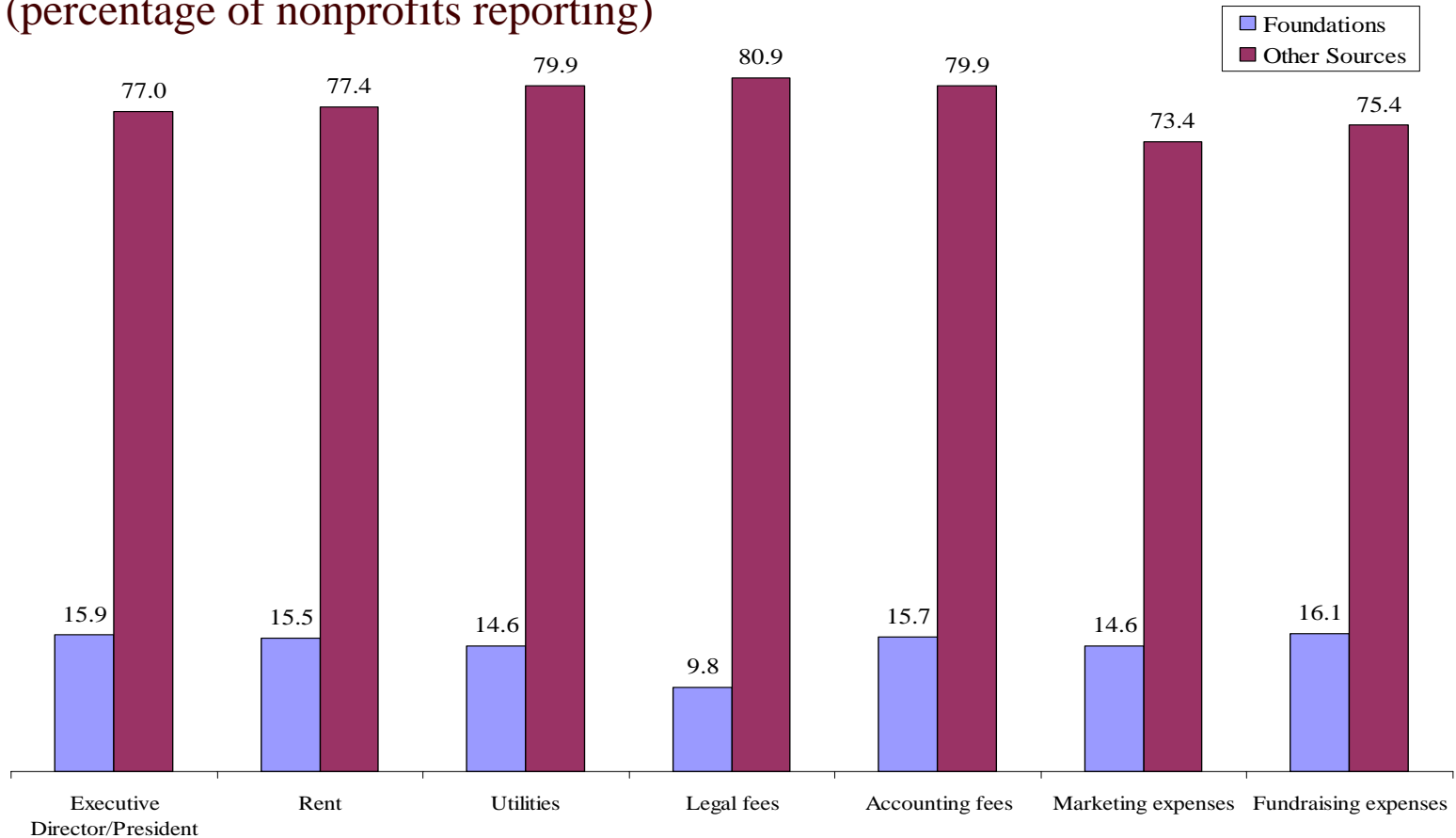


Nonprofit Study

- 6,000 educational and human services org.
- Stratified random sample (by type of organization and size)
- 880 responses
- 15.5% response rate

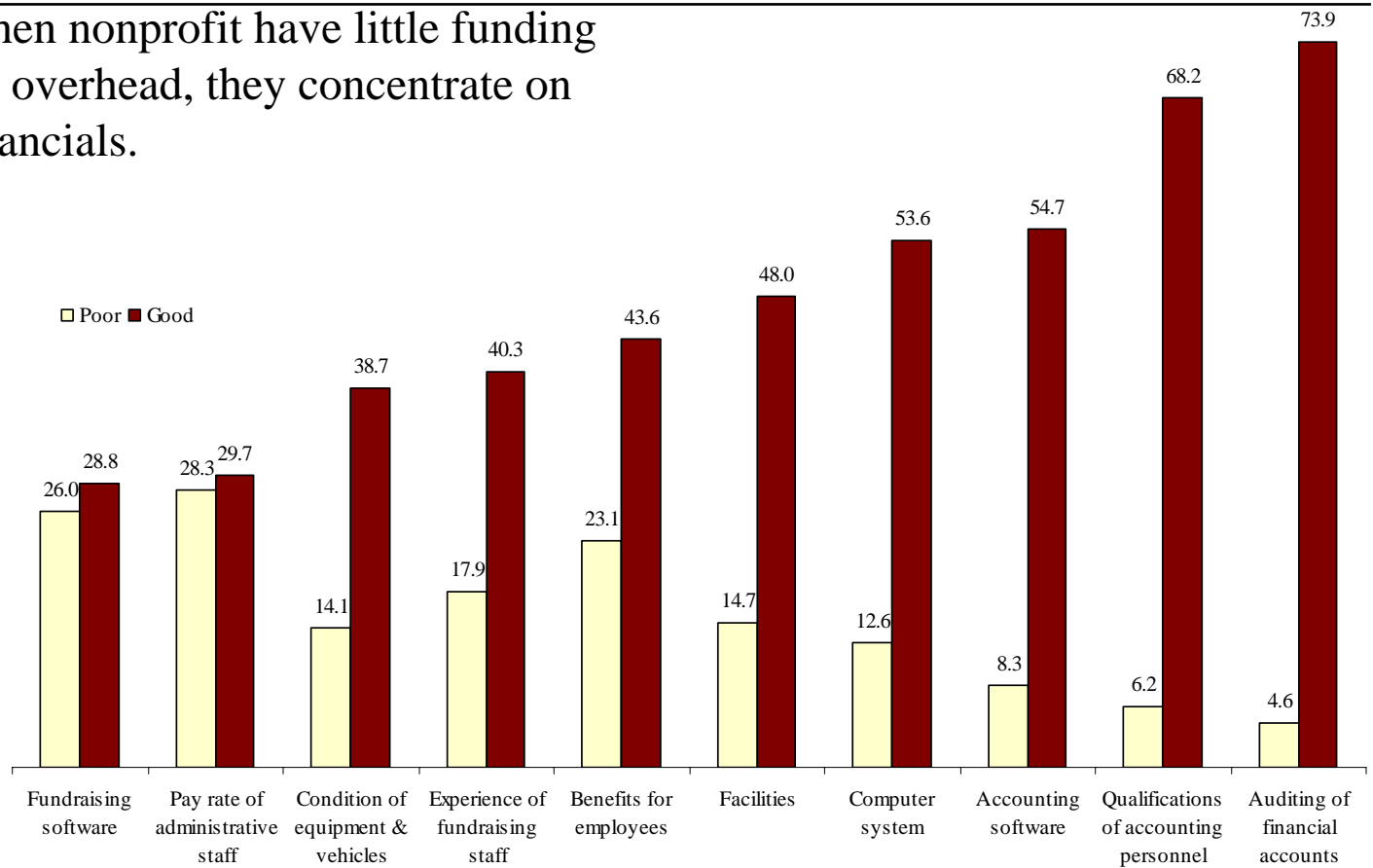
Source of Funding for Overhead by Type of Expense

(percentage of nonprofits reporting)

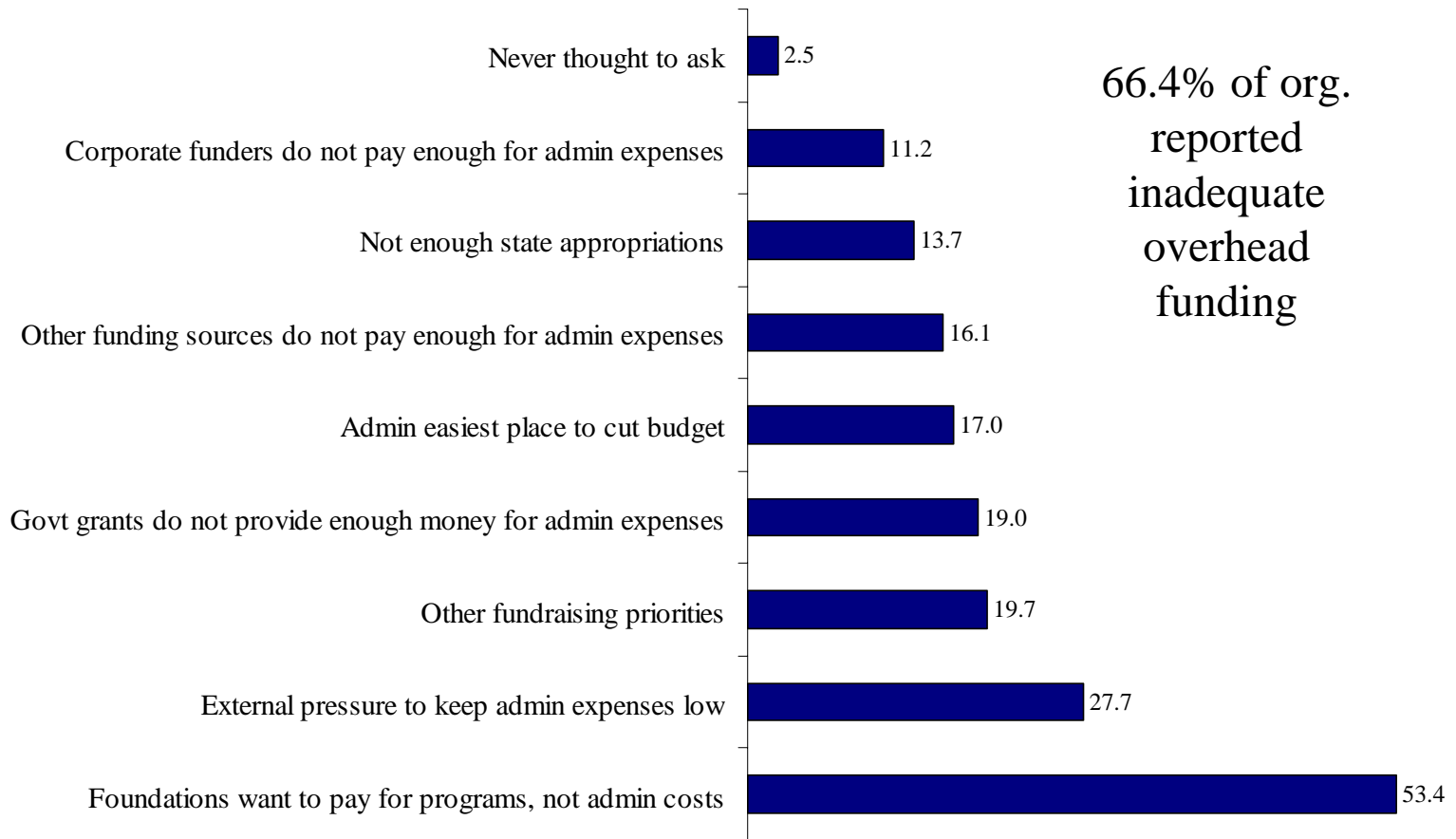


Condition of Infrastructure with Insufficient Overhead

When nonprofit have little funding for overhead, they concentrate on financials.



Reasons Orgs. Report Inadequate Overhead Funds





Nonprofits Most Likely to Receive Overhead Funding

- ❑ **Larger NPOs:** Increases in revenue or charitable revenue are statistically correlated with adequate or more than adequate overhead funding.
- ❑ **Org. relying on foundation support:** The percent of funding from foundations was negatively correlated with the state of overhead funding for human services organizations.
- ❑ **Educational organizations** are statistically more likely than human services to report adequate or more than adequate overhead funding, holding revenue constant.



Nonprofits Most Likely to Have Good or Excellent Infrastructure

- **Larger Nonprofits:** Increases in revenue and charitable revenue are statistically correlated with good or excellent infrastructure.
- Neither the percent of unrestricted funding nor the percent of funding from foundations is correlated with the condition of infrastructure.
- The type of organization, either educational or human services, was also not statistically correlated with good infrastructure.



A Matter of Policy

Percentage of Foundations with Grant Making Policies

Of those who answered (n=~650)

	Percent (yes)*
Policy on funding Admin. Costs	17.8
Policy on Operating Grants	34.6
Periodic Review of Policy	59.5
Impact Analysis	6.9

*Does not total 100%, select all that apply



Setting Policy

Foundation Officials Charged with Setting a Policy on Funding Overhead Costs

	Percent (yes)*
Board of Directors	82.2
Chief Executive Officer	39.7
Foundation Staff	20.7
Program Officer	12.7
Donors	3.0

*Does not total 100%, select all that apply



Why Some Foundations Changed Their Policies

- “We believe administrative costs can be the most effective grant. Not funding these costs is short-sighted and cripples the grantee.”
- “We began increasing our proportion of general operating support grants and included unrestricted funding as a result of grant recipient feedback during a 2002 program assessment.”
- “[Administrative costs are] often the most difficult to raise...when we value what the organization accomplishes, supporting administrative costs are dollars well spent.”
- “A few years ago we began the process of educating our Board to the necessity of providing planning and organizational development grants.”



For more on this topic visit:

www.philanthropy.iupui.edu

Click on Most Current Research
Fundraising & Administration