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CHARTING THE SEA OF GOODWILL

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Center for a New American Security

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Cover Image Credit: Wounded Warrior Project and Team Red, White and Blue

Introduction and Summary

There are 21 million veterans in America, including more than 2.7 million who have deployed since 9/11. Serving this vast community is a "sea of goodwill" that includes millions of individuals and philanthropic organizations, including more than 40,000 that are registered with the Internal Revenue Service (IRS) as tax-exempt and explicitly focused on the veterans and military community. In recent years, these organizations have drawn increasing attention (both positive and negative) because of their breadth, actual and potential impact, questions about their activities, and the desire to have every philanthropic dollar produce maximum impact.

As the United States sent its service members to war in Iraq, Afghanistan, and other theaters of war, public support for the veteran and military community soared. Nonprofit service organizations and grantmaking entities alike grew up around the country, particularly as the unique needs of and issues facing post-9/11 service members and their families emerged. Certain corporate and philanthropic funders also played an important role in catalyzing and financing this movement, including the California Community Foundation's Iraq Afghanistan Deployment Impact Fund (IADIF).[1] Philanthropy can intervene in adaptive, innovative, and highly specialized ways, bridging gaps between existing needs and services.

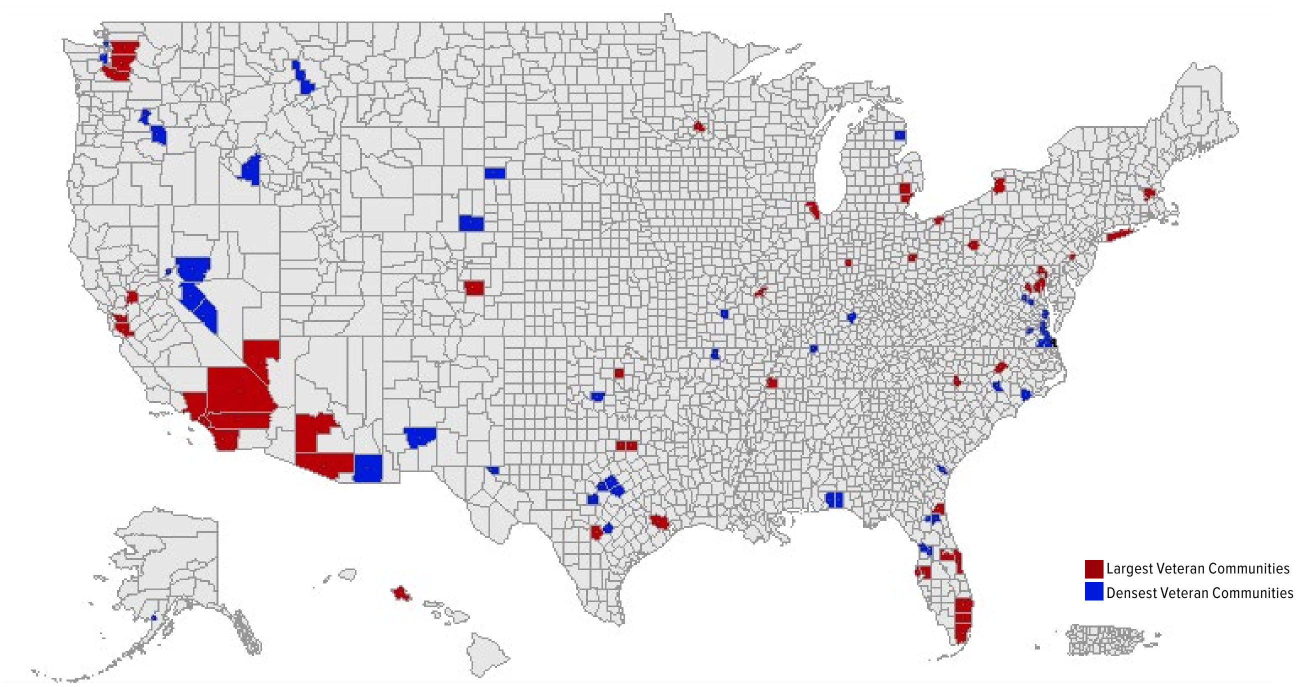
Because of its organic, often uncoordinated nature, the nonprofit community serving veterans has taken on a fragmented character, with many leaders arguing for greater coherence and coordination among these nonprofits.[2] A number of efforts have sprung up around the country to provide better collaboration and case management at the community level,[3] following years of research and advocacy showing the potential for such efforts.[4] And in a recent paper titled "After the Sea of Goodwill," the Joint Chiefs of Staff office responsible for service member reintegration called for more (and better) private and philanthropic coordination to serve this community.[5]

Yet before one can answer questions such as what will happen to the sea of goodwill in the future? or call for greater coordination within this community, it is necessary to understand the current scope of investment and activity. What is the picture of the philanthropic landscape for the veteran and military community? How many nonprofits serve this community, where are they, and what assets do they bring to bear? What long-term trends exist for U.S. nonprofit organizations with respect to their number, size, assets/revenue, and location? How do these trends compare to the same trends for nonprofit organizations serving the veteran and military community? What social, political, economic, historical, or other data explain these trends and distributions? And what policy and practical implications are suggested by the data?

This report examines the state of philanthropy focused on the military and veteran community from 2001 until now. Using data from the IRS, Department of Veterans Affairs (VA), and other sources, the authors profile the number of organizations serving this community, their overall assets and revenue, and their geographic distribution as they relate to the veteran population. This data-driven approach aims to ensure that future giving can be targeted and coordinated to better meet the needs of this important population. Among the report's findings:

- As a portion of overall revenue for nonprofit organizations, military- and veteran-serving nonprofits account for less than two-tenths of 1 percent of assets and revenue as measured by the IRS.
- Since 2001, revenue for military- and veteran-serving philanthropic organizations has remained relatively constant, adjusted for inflation.
- The number of nonprofits devoted exclusively to the military and veteran community peaked in 2011 but has steadily decreased over the last four years. Given near-constant investment, this suggests a slight decline in the overall number of military- and veteran-serving nonprofits, likely mirroring a similar decline in the overall size of the veterans and military population.
- Government funding to military- and veteran-serving nonprofits in the form of grants and contracts has increased significantly over time, particularly the past six years. The combination of this trend and the overall flat revenue for the sector suggests that philanthropic sources may be declining as a percentage of revenue for this sector, being replaced by government funding (such as VA grants and contracts to combat homelessness).
- The data suggest a growing divergence between need and resources in the veteran and military nonprofit sector. This divergence will likely grow over time.
- The sector must find ways to access new pools of capital, besides its traditional reservoirs of government funding and philanthropic giving, if it is to survive current trends.
- Competition for increasingly scarce resources currently takes place in an imperfect marketplace where data is limited to organizational and financial data of the type studied in this paper. This paper argues for the development of better systems to measure performance and success among nonprofit organizations, including measures that are linked to outcomes such as wellness of veterans.[6]

FIGURE 1. 50 LARGEST AND DENSEST COUNTY VETERAN POPULATIONS



Source: Department of Veterans Affairs, VetPop and Geographic Distribution of Expenditures data

Background

The Veteran Population

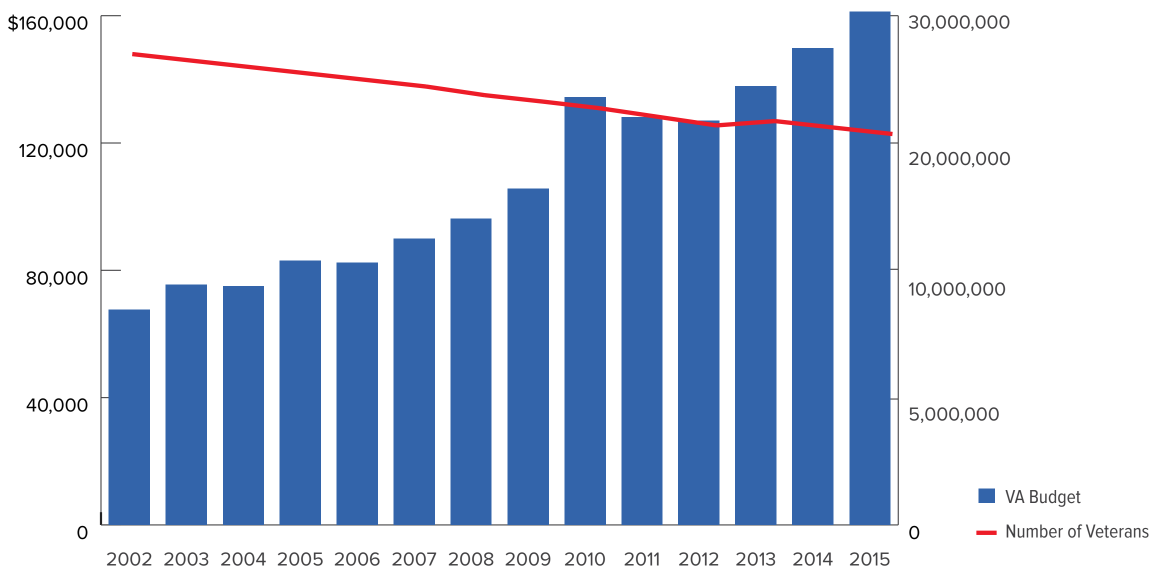
The current veteran population mirrors the composition of the U.S. military over the past 75 years. The majority of veterans are older white men who served during the World War II, Cold War, Korea, and Vietnam eras. Younger veterans who served after 1973, in the era of the All-Volunteer Force, make up an increasing percentage of the veteran community. Over time, based on demographic projections, the veteran population will become younger, more diverse, and more socio-economically advantaged, reflecting the characteristics of today's active and reserve military.

Geographically, today's veteran population reflects the community's current demographic profile. In absolute terms, it skews toward the Sun Belt, with major concentrations in Southern California, Arizona, Texas, and Florida. Large veteran communities also surround many major military bases, often including large numbers of military retirees.[7] However, on a per capita basis, the geographic distribution of veterans in America looks quite different. The nation's largest veteran communities, in cities such as Los Angeles, Chicago, and New York, constitute a small percentage of the total population in those metropolitan areas. Indeed, of the 50 counties with the largest veteran populations, only one (Virginia Beach, Virginia) is also on the list of the 50 counties with the most veterans per capita. Figure 1 depicts the geographic distribution of veterans – both in absolute terms and per capita terms – to show this dichotomy.[8]

Government Spending on Veterans

The Department of Veterans Affairs has the primary responsibility for the veteran community within the federal government. Aligned with this responsibility is a vast budget, totaling $163.9 billion in fiscal year (FY) 2015 and a proposed $168.8 billion for FY 2016.[9] Within the FY 2015 budget, medical programs account for nearly $60 billion and benefits account for over $95 billion.[10] The VA budget has increased by more than 140 percent since 2002, when it stood at $67 billion (FY 2015 constant dollars). During the same period, the veteran population has steadily declined – from approximately 25 million in 2002 to 21 million in

FIGURE 2. VETERAN POPULATION VS. DEPARTMENT OF VETERANS AFFAIRS BUDGET IN MILLIONS OF DOLLARS, (FY 2015 CONSTANT)



Source: Department of Veterans Affairs; Office of Management and Budget Historic Tables

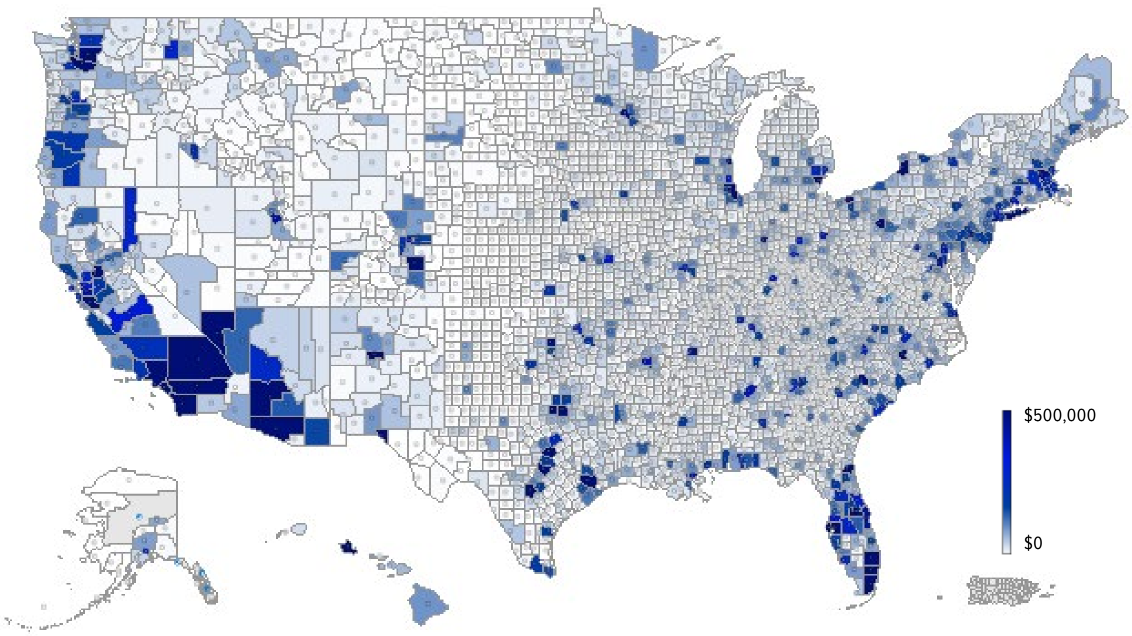
2014. This decline reflects the aging of the large World War II, Cold War, Korean War, and Vietnam War-era cohorts of veterans, who are not being replaced in as large numbers by veterans of the smaller force of today.

The significant VA budget increases during this time of population decline reflect a number of important dynamics that matter significantly for the private and philanthropic sectors too. Demand for VA support and services – not the size of the veteran population – drives the budget. The increases reflect rising demand from veterans of all generations. The largest chunks of this spending go to disability compensation, followed by veteran health care, followed by education benefits such as the Post-9/11 GI Bill. During the post-9/11 era, the VA has been hit by waves of higher demand, both from older veterans seeking compensation and health care and from younger veterans, who are seeking VA benefits and using VA health care at record rates. These trends will likely persist over the next 10 to 20 years as the agency continues to see significant demand from older and younger veterans alike.

Government spending on veterans generally mirrors population distribution and demographics – with wide variation between states and counties based on the veterans who reside there and their use of government benefits. The demographic profile of a given community, such as Phoenix, significantly affects the amount and type of federal spending. Older veteran communities, or those with significant economic need, tend to have heavy concentrations of federal health care and disability spending. Younger veteran communities typically have higher concentrations of federal spending on educational benefits, such as the Post-9/11 GI Bill. Figure 3 depicts depicts the geographic distribution of VA spending across the country by county in absolute terms.

However, VA dollars do not serve everyone in the veterans and military community. Certain segments of the veteran population – including those who did not serve long enough on active duty, state Guard personnel without a federal mobilization, or veterans discharged with "bad paper"[11] – may not qualify for VA benefits. Veterans' family members generally do not qualify for VA benefits, outside

FIGURE 3. GEOGRAPHIC DISTRIBUTION OF EXPENDITURES



Source: Department of Veterans Affairs, Geographic Distribution of Expenditures, FY 2013

of narrow support for caregivers of seriously wounded veterans, or GI Bill benefits transferred from veterans to their dependents. State, local, and philanthropic programs can fill these gaps, reaching populations not served by the VA.

Nonfederal dollars play important roles that VA capital does not, including providing for persons not eligible for VA benefits or offering seed capital for organizations and ideas to serve the veterans community. While the VA carries the primary responsibility of caring for the nation's veterans, its ability to adapt and innovate may be limited by its large bureaucratic structure and by the federal budget cycle. Philanthropy can intervene in adaptive, innovative, and highly specialized ways, bridging the divide between government policy and need. While philanthropy will never fully replace government expenditures on veterans – nor should it – it can step in to prevent crises and drive positive outcomes in their lives.

Defining Military and Veteran Philanthropy

Nonprofit organizations exist at the national, state, and local levels and span a wide range in organizational size, revenue, and assets – from small organizations operating on marginal revenue to multilayered organizations with assets in the millions. This paper focuses on those exclusively serving the military and veteran community. Many others also provide support to the military and veterans, such as the American Red Cross, YMCA, and religious institutions. However, the available data make it difficult to identify which of these focus on the veteran and military community, as well as to disaggregate the work these groups do specifically on its behalf.

A BRIEF HISTORY OF TAX-EXEMPTIONS FOR VETERAN ORGANIZATIONS

The first major American veteran organizations came into being after the Civil War, during which nearly 3 million service members fought on both sides. These included the Grand Army of the Republic and United Confederate Veterans, among others. Each subsequent major U.S. conflict gave rise to a new major veterans group. The Veterans of Foreign Wars (VFW) of the United States emerged after the Spanish-American War. After World War I, the American Legion was founded in 1919 by a group of U.S. veterans in Paris; Disabled American Veterans of the World War was founded in 1920 by veterans in Cincinnati, Ohio. These groups played a central role in the national debates over veterans benefits in the interwar years and the creation of the Department of Veterans Affairs' predecessor agency, the Veterans Bureau, in 1921, and then the further consolidation of veterans programs into the Veterans Administration in 1930.

The U.S. system of taxation emerged during this time as well, including a number of tax exemptions for various types of philanthropic, charitable, and social organizations. Between 1894 and 1969, Congress enacted a number of tax statutes that established the basic requirements for tax exemption, including what types of organizations would be exempt from federal taxation. The Revenue Act of 1913 established an income tax system with an exemption for certain type of organizations; four years later this was followed by the Revenue Act of 1917 that created the individual income tax deduction for charitable contributions. In 1954, Congress enacted the Revenue Act of 1954, establishing the modern U.S. tax code that largely exists to this day. This code included section 501(c) for tax-exempt organizations. There are now 28 different types of tax-exempt organizations under section 501(c). The most prominent tax-exempt organizations under the tax code are 501(c)(3) charitable organizations of a religious, charitable, scientific, educational, or other nature, and 501(c)(4) organizations that exist as civic leagues, social welfare organizations, and local associations of employees.[12]

In 1972, Congress added section 501(c)(19) to the Internal Revenue Code for war veteran organizations and their auxiliaries.[13] A decade later, Congress amended this code section to allow all veterans organizations (not just those comprised of war veterans) to qualify.[14] Previously, such organizations had typically qualified under one of the other code sections for tax-exempt status. However, the new 501(c)(19) section carried some additional benefits not available to other tax-exempt organizations. The new section included an additional exemption for certain insurance premium income retained by veteran organizations and auxiliaries, excluding these premiums from unrelated business taxable income. Section 501(c)(19) also contains no restrictions on the lobbying or political activities of veteran organizations and their auxiliaries, a major difference from the rules applicable to most tax-exempt organizations.[15]

Most – but not all – nonprofit organizations obtain a tax exemption from the Internal Revenue Service and the appropriate state tax entities. Such an exemption enables nonprofit organizations to benefit from the charitable deduction that makes donations to them tax-exempt; it also lets the organizations avoid paying taxes on income from charitable activities. Because of the public interest in knowing about the beneficiaries of such exemptions, the IRS makes public significant data regarding tax-exempt organizations, including historical and aggregate information about their assets and revenue, and the organizations' tax filings. This paper uses publicly available IRS data as its primary source for information regarding tax-exempt nonprofits and philanthropic giving. The structure enables us to look at nonprofits serving the veteran and military community through a few lenses:

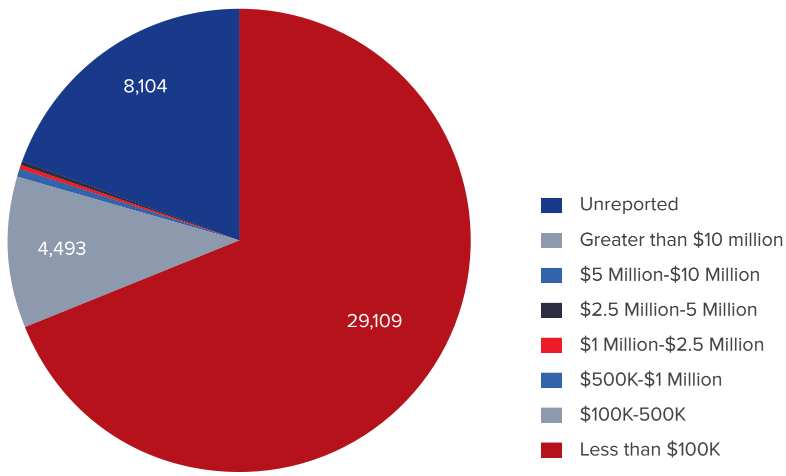
- **NTEE codes.** The National Center for Charitable Statistics developed the National Taxonomy of Exempt Entities (NTEE) as a way for the IRS and others to classify nonprofit organizations.[16] The IRS classifies registered nonprofits into 655 detailed NTEE codes, with "Military/Veterans' Organizations" listed under the code W30. This code captures those tax-exempt organizations that are focused on the military and veteran community as their primary mission. Much of the data reported in this brief is based upon searching of the IRS Master Data file reported by W30 organizations on their Form 990/Form 990-N filings.[17]
- **Tax Code sections.** Nonprofit organizations can also be classified by the sections of Internal Revenue Code 501(c) under which they claim a tax exemption. 501(c)(3) is perhaps the best-known classification associated with charitable organizations. However, there are a number of others, including 501(c)(19) and (c)(23), the tax code sections reserved for veteran organizations and their auxiliaries. These separate code sections are important because they denote different types of organizations with fundamentally different missions, memberships, and structures, as well as very different effects for the veteran and military community. Table 1 shows the rapid growth in tax-exempt organizations from 1976 to 2001.[18] Most of this growth occurred among traditional 501(c)(3) groups, whose ranks more than tripled. By contrast, 501(c)(4) organizations, including civic leagues, social welfare organizations, and local associations of employees, grew at a relatively modest pace during this period. Veteran organizations constitute a small part of the tax-exempt community, but during this period their number rose by 153 percent, likely reflecting the growing size of the veteran population during the late 20th century. In 1976, veteran organizations and their auxiliaries represented 1.8 percent of all tax-exempt organizations; in 2001, that percentage rose to 2.5 percent.
- **Geography, asset size, and revenue levels.** The publicly available IRS data also enable geolocation of nonprofit organizations by state and county, which is useful for mapping the "sea of goodwill" and understanding the alignment between these groups, the veteran population, and the national population. Publicly available IRS data also provide aggregate information regarding the revenue and assets of tax-exempt organizations, as reported by these organizations on their annual tax filings.

TABLE 1. GROWTH OF U.S. PHILANTHROPIC ORGANZATIONS, 1976-2001

	1976	1980	1990	2001
501 (c) (3) charitable organizations	259,523	319,842	489,891	865,096
501 (c) (4) associations	125,415	129,553	142,473	136,882
501 (c) (19) veteran organizations	13,960	22,247	27,462	35,265
All 501 (c) organizations	756,537	843,324	1,022,166	1,399,397

Source: Joint Committee on Taxation

FIGURE 4. NONPROFIT MILITARY AND VETERAN ORGANIZATIONS PARSED BY REVENUE



Source: GuideStar Database, IRS Form 990 data sorted by W30 NTEE code as of June 5, 2015.

This method of taxonomy and data selection helps scope an analysis of long-term trends in the sector of philanthropic and nonprofit activity focused on the veteran and military community. This narrow scope unfortunately does not encompass philanthropic organizations with broad aims – such as the YMCA, religious institutions, and community programs – that also serve veterans, often in meaningful ways.[19] The full scope of organizations and investments in the military and veteran community may therefore be underrepresented.

Research and Findings

Overview

Using the taxonomies described above, this report utilized Internal Revenue Service data sets held by the Urban Institute's National Center for Charitable Statistics[20] and the nonprofit research corporation GuideStar[21] to develop a data profile of the "sea of goodwill" – those nonprofit organizations focused on serving the veteran and military community. As of June 2015, there were 42,035 nonprofit organizations focusing on the military and veteran community.[22] Of those organizations, 34,146 reported their revenue using either a IRS tax Form 990 or Form 990-N, accounting for a total of $2,778,779,478 in revenue and $9,168,092,039 in assets, during the last period for which data is available.[23] Military and veteran philanthropic organizations account for roughly 3 percent of all registered philanthropic organizations. Military and veteran philanthropic assets make up a very small portion of total philanthropic assets – between .1 and .2 percent for all years between 2001 and 2014.

Organizational Size

Among the 42,035 nonprofit organizations focused on the veteran and military community, the overwhelming majority – 29,109, or 69 percent of the total – reported less than $100,000 in revenue.[24] This percentage stands out because it is significantly larger than the national average for all nonprofit organizations; 40 percent of all U.S. nonprofits have revenues less than $100,000.[25] 4,800 organizations reported between $100,000 and $1 million. Only 237 organizations reported more than $1 million in revenue. This distribution of organizational assets and revenue indicates that the vast majority of military- and veteran-serving nonprofits

TABLE 2. W30 ORGANIZATIONS BY TYPE				
Section of Code	**Description of Categories**	**Revenue**	**Assets**	**Number of Organizations**
501(c)(2)	Title Holding Corporation for Exempt Organizations	$105,364	$607,959	44
501(c)(3)	Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, etc.)	$1,020,945,474	$1,792,804,344	3,035
501(c)(4)	Civic Leagues, Social Welfare Organizations, and Local Associations of Employees	$308,158,306	$795,543,968	5,308
501(c)(5)	Labor, Agricultural, and Horticultural Organizations	$1,161,591	$928,207	10
501(c)(6)	Business Leagues, Chambers of Commerce, Real Estate Boards, Etc.	$9,795,647	$7,938,847	12
501(c)(7)	Social and Recreational Clubs	$35,836,902	$43,617,357	183
501(c)(8)	Fraternal Beneficiary Socieites and Associations	$1,004,736	$1,428,736	39
501(c)(19)	Post or Organization of Past or Present Members of the Armed Forces	$1,105,702,401	$2,704,730,874	33,347
Other				57
Total		$2,487,883,507	$5,355,170,470	42,035

Source: GuideStar database for W30 organizations as of June 5, 2015.

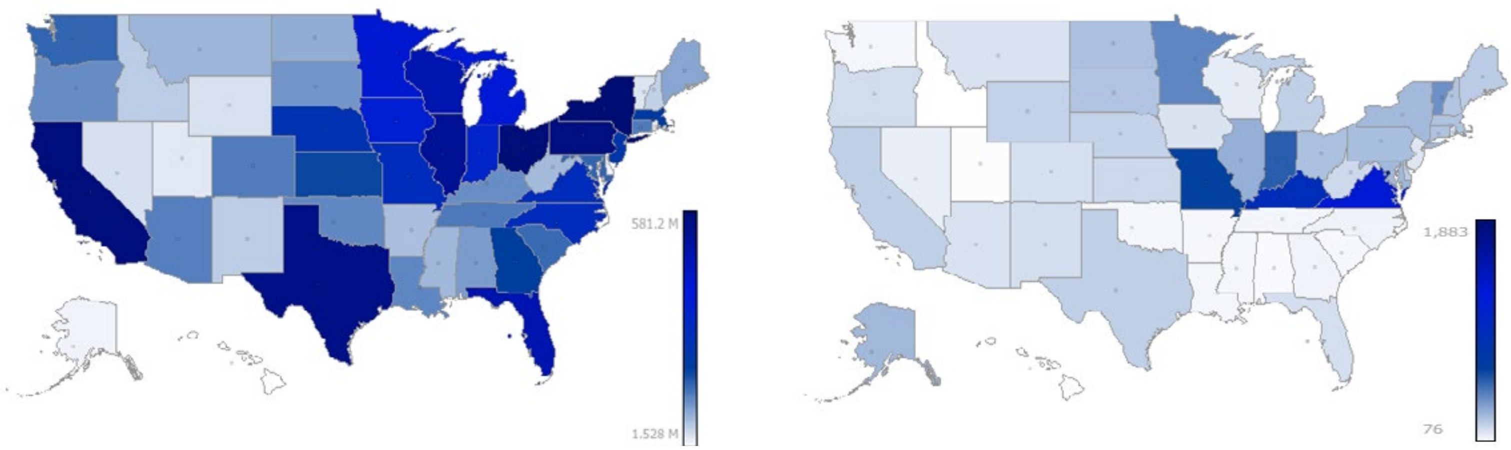
roperate on relatively small amounts, likely serving the same communities where they reside.

Organizational Type

Under the Internal Revenue Code, charitable organizations are divided by type according to the section of the code under which they claim their tax exemption. Within the nonprofit sector, the most prominent organizational types are charitable organizations organized under Section 501(c)(3), advocacy organizations organized under 501(c)(4), and veteran organizations organized under Sections 501(c)(19) or (c)(23). Within the nonprofit sector serving the military and veteran community, there is a fairly lopsided split for these organizations. Table 2 shows the distribution of tax-exempt organizations with the W30 NTEE code by Internal Revenue Code section. Most notably, this table shows that veteran organizations (such as the Veterans of Foreign Wars and the American Legion) and their auxiliaries constitute a large majority – 33,347 of 42,035, or 79 percent – of the "sea of goodwill."

This accords with the revenue data as well, painting a picture of the veteran- and military-serving nonprofit landscape as primarily comprised of small organizations with less than $100,000 in annual revenue, dominated by traditional veterans organizations and their auxiliaries.

FIGURE 5. COMPARATIVE MAPS, NUMBER AND REVENUE OF MILITARY- AND VETERAN-SERVING NONPROFITS



Source: Urban Institute's National Institute for Charitable Statistics, for the period ending September 30, 2014.

Geographic Distribution

In addition to the trends in assets, revenue, and number of organizations, this paper looked at the locations of nonprofit organizations serving the veteran and military community, to assess the linkage between the "sea of goodwill" and veteran population. This analysis suggests a very uneven distribution of organizations and resources to serve veterans nationally.[26]

It is important to note that the location, annual revenue, and assets of any given organization are credited to the location of the organization's headquarters. Therefore, the data are most useful for organizations operating within the local community or within their state of record. For larger organizations, particularly those with a national reach, the data may overrepresent locations with a high number of national headquarters – particularly in cities such as New York City and Washington and their surrounding suburbs, which tend to attract headquarters for a range of nonprofits and private-sector corporations alike. However, because the vast majority of nonprofit organizations in this sector are small organizations with less than $100,000 in revenue, this analysis of addresses on tax filings likely bears a close relationship to where these organizations do their work.

As shown above, the number of military- and veteran-serving nonprofits varies drastically across the country, from 76 in Washington, D.C., and 78 in Hawaii to 1,883 in New York. California, Texas, and Pennsylvania, home to large veteran populations and military communities, are each home to roughly 1,800 military- and veteran-serving nonprofits.

On a per-veteran basis, there are more military- and veteran-serving nonprofits in the rural Upper Midwest. For example, North and South Dakota have 334 and 408 registered military- and veteran-serving nonprofits on file, respectively, while neither state has more than 75,000 veterans. While California is home to 1,837 military- and veteran-serving nonprofits, these nonprofits serve a large state population of 1.7 million veterans. The state-level revenue of military- and veteran-serving nonprofits reflects the attraction Washington and its environs have for headquarters of national-level nonprofits. Those nonprofits headquartered in Virginia raised over $580 million in 2014, while Washington-based organizations raised a collective $169 million. While impressive in national scope, it is reasonable to assume that a high proportion of the revenue reported in the capital region has a much broader reach than the local community, because it is linked to national organizations like the USO."

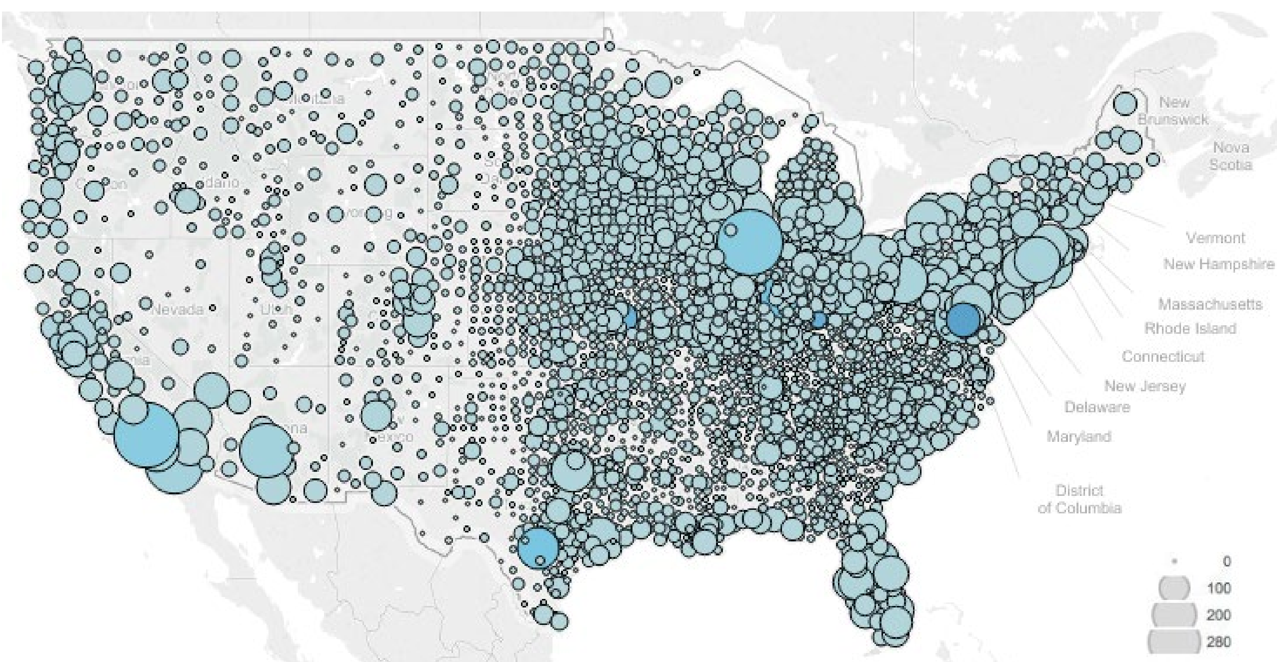
The relationship between the number of military and veteran nonprofits and total revenue at the county level is shown in Figure 6. The number of organizations is represented by the size of the circle (larger circles representing more organizations), while total revenue is represented by the shade (darker shades representing higher revenue). Nationwide, most counties have a small number of organizations with revenue under $100,000. This likely indicates that the plurality of military- and veteran-serving nonprofits exclusively serve their local communities. However, large cities, including Los Angeles, Chicago, Houston, New York City, and Washington, exhibit a much higher proportion of organizations and revenue, indicating that at least some of the organizations and revenue attributed to the location focused beyond the local level to the regional and national level.

Asset and Revenue Trends

In order to examine trends in military and veteran philanthropy over time, it is useful to compare the change over time with the broader philanthropic community. This becomes particularly important when framing the impact of the most recent recession on overall investment in philanthropy.

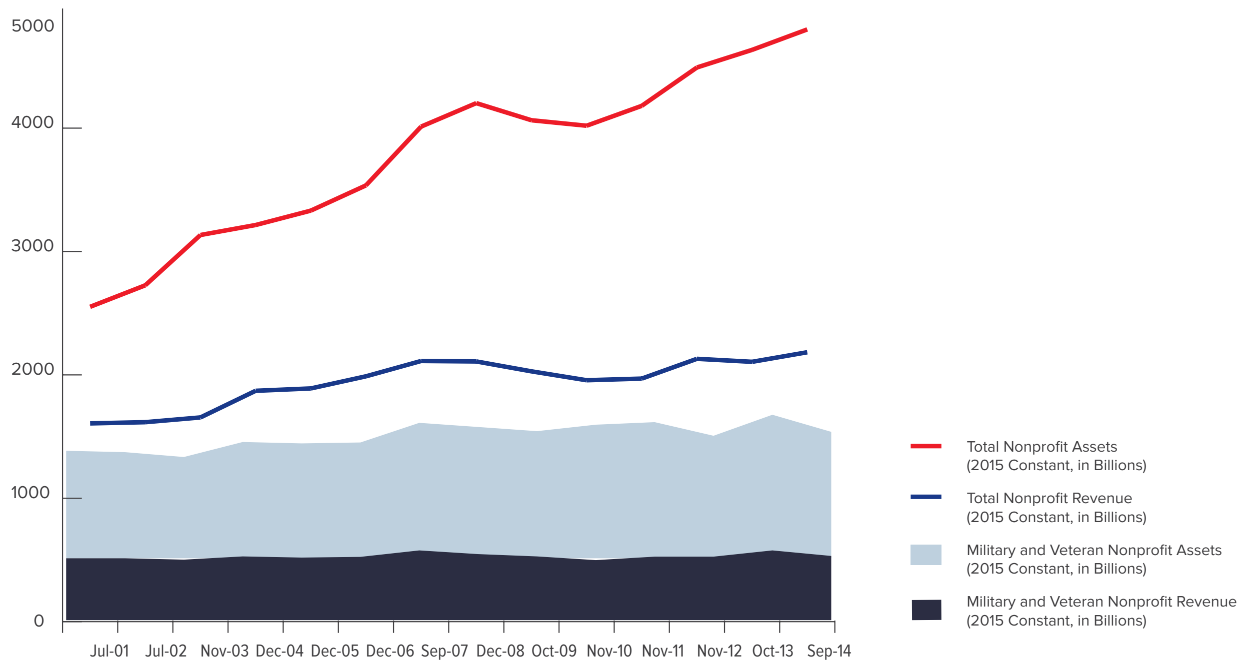
More than 90 percent of nonprofit organizations were created after 1950, reflecting the evolution of American philanthropy during the 20th century, the increase in household and corporate wealth that enabled philanthropic giving, and the availability of tax exemptions for such giving.[27] In 1940, there were approximately 12,500 charitable tax-exempt organizations in the United States, about 180,000 tax-exempt religious congregations, and approximately 60,000 noncharitable nonprofit organizations, such as labor unions. By 1980, these numbers climbed to 320,000 charitable nonprofits, 336,000 religious organizations, and 526,000 noncharitable nonprofits. And in 2004, the numbers rose even higher, with roughly 600,000 charitable organizations, 400,000 religious congregations, and 600,000 noncharitable organizations.[28]

FIGURE 6. PROFITS AND TOTAL REVENUE PER COUNTY



Source: Urban Institute's National Institute for Charitable Statistics, for the period ending September 30, 2014.

FIGURE 7. COMPARATIVE ASSETS AND REVENUE, 2001-2015 (FY 2015 CONSTANT DOLLARS)



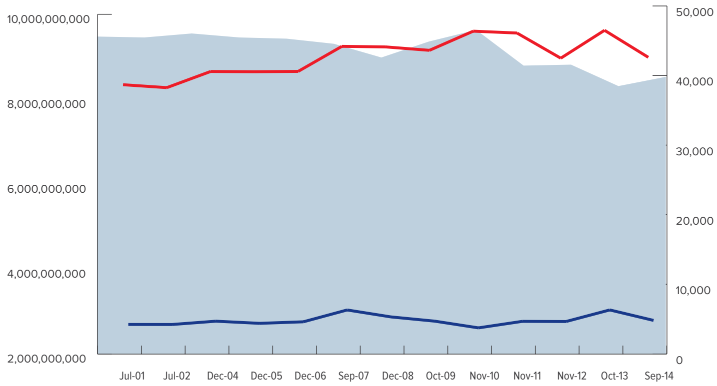
Source: Urban Institute's National Institute for Charitable Statistics, for the period ending September 30, 2014.

As shown in Figure 7 above, total philanthropic assets experienced steady growth between 2001 and 2014. Total assets for all philanthropy amounted to over $3.4 trillion in 2001, increasing to over $4.7 trillion in 2014. During the same period, total assets for military and veteran philanthropy grew from $8.3 billion $8.9 billion.[29] Revenue for both overall philanthropy and military- and veteran-specific philanthropy suffers more volatility than overall assets on an annual basis. Military and veteran revenue was particularly affected by the 2007-2008 recession, when revenue decreased from a high of over $3 billion to a low of $2.6 billion in 2010, a decrease of 13 percent. Revenue in 2014 has returned to roughly the same level as revenue in 2001, beginning at $2.67 billion and ending at $2.77 billion.[30] By comparison, total philanthropic organizational revenue has more steadily increased, beginning at $1.5 trillion in 2001 and rising to $2.1 trillion in 2014. The recession did affect total philanthropic revenue, which decreased from $2 trillion in 2007 to $1.9 trillion in 2010, but the impact was a less drastic 5 percent.

The trends captured above indicate two findings. First, military- and veteran-specific organizational revenue remained relatively constant over the course of the post-9/11 conflicts. Second, as a portion of overall philanthropic dollars, military- and veteran-specific assets and revenue constitute a smaller share of the nonprofit pie than they did 15 years ago. These findings are somewhat surprising, given the perceived public awareness of the military and veteran community. However, it is explained (at least in part) by the large number of small organizations with more limited resources (as shown in Figure 4), and also by non-W30 organizations capturing an increasing share of philanthropic giving (and organizational revenue) going to veteran and military causes.

Further analysis on the relationship between the number of organizations and their income shows that the most significant trend in recent years has been a decline in the number of military- and veteran-serving philanthropic organizations, paired with a relatively flat level of revenue and assets (Figure 8). These trends in combination suggest that the military and veteran philanthropic community is beginning to consolidate, as a smaller number of organizations sustain a relatively stable level of funding. The asset and organizational

FIGURE 8. NUMBER OF MILITARY- AND VETERAN-SERVING NONPROFIT ORGANIZATIONS VS. TOTAL REVENUE AND ASSETS, 2001-2014



Source: Urban Institute's National Institute for Charitable Statistics, for the period ending September 30, 2014.

trends also suggest that the remaining nonprofit organizations are "warchesting" a large amount of their revenue, spending less than they are taking in on an annual basis, as well as retaining assets like real property.

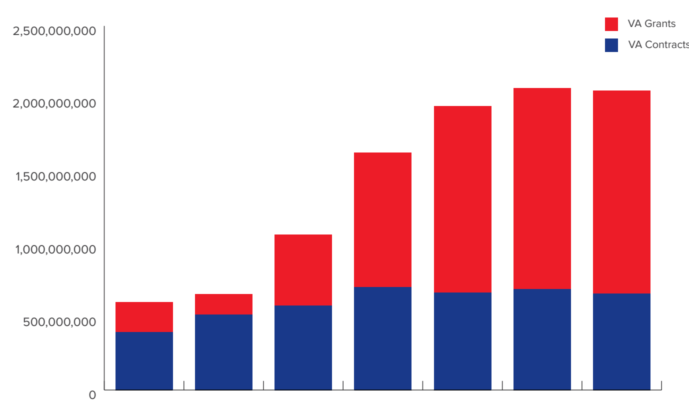
The Government Role in the Military and Veteran Nonprofit Sector

In assessing the revenue picture for tax-exempt organizations serving the veteran and military community, the authors of this report were cognizant of the increasing amount contributed by the U.S. government to this sector over the past several years. This includes a broad array of grants and contracts, ranging from research grants for institutions of higher education to grant support for organizations combating veteran homelessness at the community level. Based on interviews with community leaders and stakeholders, this report's authors formed a working hypothesis that this federal spending was contributing an increasing amount of funding to the nonprofit sector serving the veteran and military community.

To test this theory, the authors gathered data on VA grants and contracts from 2008 to 2014 that were made to nonprofit organizations. Figure 9 shows this data, broken down between VA contracts with nonprofit entities and VA grants (which are, by definition, made to nonprofit or governmental entities). In FY 2008, the VA issued $398.2 million in contracts and $205.6 million in grants to nonprofit entities. In FY 2014, those figures grew substantially, with the VA issuing $660.3 million in contracts and $1.4 billion in grants to nonprofit organizations. It is difficult to determine the precise proportion of these funds that are going to the veteran and military nonprofit sector, because the transaction data available from the government do not provide enough detail at either the prime or subcontract level.

Nonetheless, the available data, coupled with government statements regarding the amount being spent via grants and contracts on efforts such as ending veteran homelessness and other areas of need, suggest that U.S. government funding now makes up a significant portion of the overall revenue flowing into the veteran and military nonprofit sector. Out of the overall revenue for this sector of nearly $3 billion in 2014, perhaps now as much as a quarter now likely comes from the U.S. government. This is consistent with other research indicating that, during the late 20th century, government contributions spanned a wide range of investment in nonprofits, making up between 10 percent and 90 percent of total nonprofit revenues

FIGURE 9. VA GRANTS AND CONTRACTS, 2008-2014



Source: usaspending.gov; VA contracts include contracts to nonprofit entities; grants include all VA grants.

(depending on the sector).[31] A recent study by the Urban Institute pegged the average for government spending as a percentage of nonprofit revenue at 32.3 percent.[32] However, this figure may be higher in the veteran and military sector because of the more direct role that federal agencies such as the Department of Defense (DoD) and VA play in supporting service members, veterans, and their families through nonprofit activity.

Observations and Conclusions

Macroeconomic Trends

The revenue and asset trend lines for the veteran and military nonprofit sector appear relatively flat for the past 14 years, especially when compared with assets and revenue for the nonprofit sector as a whole. At the same time, government spending has climbed significantly. However, federal spending on defense personnel programs and veteran programs has begun to plateau or decline, based on the substantial end of the wars in Iraq and Afghanistan, domestic fiscal pressures, and a change in leadership in Congress. Although federal spending on veterans programs and military personnel programs has been spared, to some extent, from sequestration and other budget battles, recent skirmishes in Congress over VA health care funding and military end strength suggest that funding may soon decline for this sector, including both direct services provided by DOD and VA, and federal funding for the social sector of nonprofit organizations that serves this community.

During the period we studied, nonprofit organizations serving the veteran and military community saw their assets grow considerably, on both an aggregate and per-organization basis. This suggests that a certain amount of saving or "warchesting" by organizations in this sector, reflecting similar behavior by nonprofit organizations in other sectors. At the upper end of the revenue spectrum, there were 35 nonprofit organizations that brought in more than $10 million, **with a total of $1.62 billion raised by all of these** organizations during the last year reported to the IRS. During that same period, these organizations **reported $4.78 billion in assets. These assets represent** important savings for many organizations that can provide continuity of operations during difficult financial times; these assets also include real estate and other holdings that may not easily be leveraged to serve current need. However, in cases where these assets are more liquid, these vast war chests represent funds that could potentially be put to a more immediate charitable purpose.

Divergence Between Capital and Need

Notwithstanding these macroeconomic trends, need within the veteran and military community has grown, as measured by nearly every metric available, from utilization of VA and DoD services to reported demand in surveys by veteran groups. The need (or demand, in market terms) within the community has come from all parts of the demographic spectrum, including older from the Vietnam and Cold War cohorts reaching retirement age and younger, post-9/11 veterans coming home from war or transitioning from military to civilian life.

The combination of these two trends – flat levels of assets and revenue for the nonprofit sector, and increasing demand – indicates a growing divergence between available resources for the nonprofit sector, and therefore supply of services from this sector, and demand from veterans and military families.

The future does not look bright for either of the two primary sources of funding – government funding and philanthropic giving – flowing into this sector. On the government side, federal spending has slowed in recent years, particularly for discretionary programs, including veteran health care, veteran employment services, and support to military families. Although the VA has been exempted from the Budget Control Act and the more draconian mechanisms of sequestration, Congress does not appear likely to forever continue the agency's past several years of annual budget increases. Similarly, state and local spending have been affected by economic slowdowns and uncertainty over the past several years, with substantial implications for the social sector that receives funding from state and local government as well.[33]

On the philanthropic side, it appears that corporate and philanthropic giving has plateaued, or begun to decline, for the military and veteran nonprofit sector.[34] It is unclear whether this slowdown is temporary, relating to recent slowdowns in the economy that may improve, or whether this is a long-term shift in the landscape of giving.[35] Individual giving has reportedly begun to decline as well for several of the largest organizations in this space that carefully track their levels of giving.[36] This decline likely reflects a major demographic shift underway, relating to the aging of the American population. This demographic shift has an exaggerated effect within the veteran community, because of the preponderance of veterans who are above the age of 65. As these veterans and their spouses fade away, they are being followed by a smaller cohort of younger veterans who do not have the same disposable income available for donations, nor the same habits of donation as the previous generations of veterans. Consequently, direct-mail campaigns and other traditional modes of philanthropic fundraising no longer produce the same rates of return for major veteran and military organizations. This shift has been so large and profound across the nonprofit sector as to force the consolidation and merger of the largest nonprofit direct marketing agencies and will continue to have a significant effect on the veteran and military community as well.[37]

Access to New Forms of Capital

The military and veteran nonprofit sector will gradually starve for lack of resources if current funding trends continue. If this sector is to continue to play a central, vibrant role in supporting the veteran and military community, it needs access to new pools of capital, besides its more traditional reservoirs of government funding and philanthropic giving. These may include philanthropic investment vehicles such as "social impact bonds," donor-advised funds held by major financial institutions, or "pay for success" vehicles. These models can mobilize large amounts of capital from new sources for the social sector, and also tap the increasing desire among investors and philanthropists to direct both their investments and their charitable giving toward social impact. In one recent survey of wealthy donors and investors, 63 percent of millennials and 40 percent of Generation X respondents said they currently owned or were interested in social impact investments,[38] a significant increase over baby boomers and members of older generations.[39] As an increasing percentage of investors look to achieve social impact through both their giving and their investments, there may be an opportunity for the social sector to tap this capital through new financial models.

New models of public finance may also help bridge the gap between need and resources. Currently, the overwhelming majority of funding for support to the veteran and military community comes from the federal government; state and local governments spend relatively small amounts on this community, usually as part of their larger human services budgets for things such as community mental health services. As federal and philanthropic spending becomes scarce relative to need, state and local governments should consider creating their own revenue streams to support their local veteran and military communities. An example is the Veterans and Human Services levy in King County, Washington, which was passed by voters in the Seattle area in 2011. This levy produces approximately $18 million each year in local tax revenue to be reinvested by the county in human services – 50 percent to support King County's large veteran and military community and 50 percent to support other individuals and communities in need.[40] Other state and local governments, particularly those with large or dense populations of veterans and military families, should consider similar measures to develop a local, sustainable revenue stream that can be devoted to innovative, data-driven, proactive work to support communities in need.

The veteran and military nonprofit sector should also look to new types of government support beyond funding. This may include new forms of public-private partnerships that leverage non-monetary government resources. An example of such a partnership in formation is the arrangement being developed in West Los Angeles as part of the settlement agreement between the VA and community organizations to better use the West Los Angeles VA campus.[41] Another example could be sharing of government data to better enable nonprofit organizations to conduct outreach to veterans in need, or to better track outcomes. These partnerships can provide important lift to the nonprofit sector without additional government spending – and potentially improve efficacy and impact as well.

Organizational Competition and Measurement of Success

Given the likelihood of fewer resources to support this sector, veteran and military nonprofit organizations will face increased competition for scarce resources in the years ahead. This competition will place a premium on the ability to demonstrate performance (and ultimately success) to potential donors. The most prevalent metrics used today focus on throughput or internal processes, such as the number of veterans served, or accounting metrics, such as the overhead-to-programming ratios; these metrics inform and shape individual, corporate and philanthropic giving.[42] In large part, this use of throughput and accounting metrics reflects what data is available. Surveys of corporate giving executives and high-net-worth philanthropists suggest these metrics are necessary but insufficient. In addition to seeing data regarding financial accountability and throughput, donors increasingly want to see data regarding *impact*.[43] The most powerful way for nonprofit organizations to show such impact involves the demonstration of a statistically significant effect on outcomes such as longevity, productivity, or wellness for the populations they serve. Corporate, philanthropic, and individual donors will increasingly demand the measurement of investment or grant performance against objective goals and benchmarks,[44] with such practices eventually becoming the norm in this area of philanthropic activity. Nonprofit organizations that develop efficient, effective, and accurate tools to measure their success will rise above those that can only show the amount of money spent, effort expended, or numbers served."

Unfortunately, the marketplace for veteran philanthropy remains relatively immature despite the billions of dollars that flow through this sector. Funders do not generally demand measures of effectiveness or impact; organizations measure inputs, throughputs, and outputs – but not outcomes. Until recently this sector lacked basic marketplace information such as data regarding the supply side of nonprofit organizations (and their funders), and the demand side of veterans and military families, and information about their needs. New tools[45] have recently emerged to illuminate this marketplace, but these tools must be further developed and enhanced with additional data and better user interfaces to increase their utility for funders, nonprofit organizations, and veterans alike. This greater transparency, enabled by more market information, will enable better competition between organizations for resources, as well as more informed choice by veterans and military families about which organizations they utilize.

Conclusion

The primary responsibility for supporting military personnel, veterans, and their families rests with the government – as it should. However, the private and philanthropic sectors, including the "sea of goodwill," play an important role too. Traditionally, nonprofit organizations have used private and philanthropic dollars to fill gaps left by government, innovate new approaches that can be passed on to government to replicate or broaden, or augment government services that fall short. Over the past 14 years, the veteran and military nonprofit sector has fulfilled these functions, and more, becoming a critical part of the support infrastructure for the community. However, according to IRS data on organizational revenue and giving trends, this sector faces an uncertain financial future. Nonprofit organizations will need to work harder to raise money, and demonstrate impact for every dollar earned, in order to succeed in years to come.

Aggregate data regarding philanthropic giving, organizational type, and organizational revenue enable greater understanding of the "sea of goodwill" serving veterans and military families. By analyzing the data, decisionmakers in both the public and philanthropic sectors can better identify underserved geographic regions and veteran populations. Policymakers can use the data to identify gaps between the veteran population and access to resources, and further develop the necessary infrastructure and policies to close those gaps. Policymakers can also use the information to determine which regions are highly dependent on philanthropic giving and therefore may be most affected by shifts in the philanthropic landscape. Foundations and philanthropic organizations can strategically surge resources to areas where the expenditures and need are out of alignment; equally important, they can also identify areas that may be overcapitalized, and redirect investments elsewhere.

However, the data do not reach the critical questions regarding the impact of these organizations and the outcomes they produce for veterans and military families. Financial and organizational data provide just one piece of the puzzle – and arguably not the most important piece – for understanding the true impact of these organizations on the veteran and military community. Further research should concentrate on identifying and measuring outcomes for those served and linking those outcomes to actions by public, private, and philanthropic actors in order to better understand which programs are most effective.[46] The measurement of these outcomes – and not financial or organizational data, or numbers of veterans served – should be the benchmark against which organizations are judged in the "sea of goodwill."

Endnotes

1. Vanessa Williamson, "Supporting Our Troops, Veterans, and Their Families: Lessons Learned and Future Opportunities for Philanthropy; A Report on the Iraq Afghanistan Deployment Impact Fund (IADIF) of the California Community Foundation" (Iraq Afghanistan Deployment Impact Fund, November 2009), https://www.calfund.org/document.doc?id=215; and Thomas Meyer, *Serving Those Who Served: A Wise Giver's Guide to Assisting Veterans and Military Families* (Washington: Philanthropy Roundtable, 2013).

2. See, for example, Nicholas J. Armstrong, James D. McDonough Jr., and Daniel Savage, "Driving Community Impact: The Case for Local, Evidence-Based Coordination in Veteran and Military Family Services and the AmericaServes Initiative" (Syracuse University Institute for Veterans and Military Families, April 2015), http://vets.syr.edu/wp-content/uploads/2015/04/Driving-Community-Impact.pdf.

3.See, e.g., the efforts led by Syracuse University's Institute for Veterans and Military Families in New York City and Pittsburgh, among others.

4. See Nancy Berglass, "America's Duty: The Imperative of a New Approach to Warrior and Veteran Care," (CNAS, November 10, 2010), http://www.cnas.org/publications/policy-briefs/america-s-duty-the-imperative-of-a-new-approach-to-warrior-and-veteran-care#.VfnIcXuuX0U.

5. Office of the Chairman of the Joint Chiefs of Staff, *After the Sea of Goodwill: A Collective Approach to Veteran Reintegration* (October 2014), http://www.jcs.mil/Portals/36/Documents/CORe/After_the_Sea_of_Goodwill.pdf.

6. Nancy Berglass and Margaret C. Harrell, "Well After Service," (Center for a New American Security, 2012).

7. This brief uses the term "veteran" to describe persons who served in the U.S. military, regardless of length, period, or character of service. By contrast, military "retirees" are those who serve 20 or more years in uniform, and earn a retirement pension (among other benefits) from the Defense Department.

8. The data for this section resulted from a synthesis of U.S. Department of Veterans Affairs data, including the *Veteran Population* spreadsheets and the *Geographic Distribution of Expenditures* spreadsheets for fiscal year 2013, available online at http://www.va.gov/vetdata/Veteran_Population.asp.

9. Department of Veterans Affairs, *VA 2015 Budget Request Fast Facts* (FY 2015), http://www.va.gov/budget/docs/summary/fy2015-fastfactsvasbudgethighlights.pdf; and Department of Veterans Affairs, *FY 2016 Budget Submission: Budget in Brief, Volumes 1-4* (February 2015).

10. Department of Veterans Affairs, *VA 2015 Budget Request Fast Facts*.

11. Service members discharged "under conditions other than honorable" do not qualify as veterans under federal law. Consequently, their "bad paper" makes them statutorily ineligible for the health care, employment, housing, and education benefits offered by the VA. 38 U.S.C. § 101, "Definitions."

12. See generally, Paul Arnsberger, Melissa, Ludlum, Margaret Riley, and Mark Stanton, "A History of the Tax-Exempt Sector: An SOI Perspective," Statistics of Income Bulletin, Winter 2008; see also Joint Committee on Taxation, Historical Development and Present Law of the Federal Tax Exemption for Charities and Other Tax- Exempt Organizations (JCX-29-05), April 19, 2005.

13. Pub. L. No. 92-418, sec. 1(a) (1972).

14. Pub. L. No. 97-248, sec. 354(a) (1982).

15. See Joint Committee on Taxation, Historical Development and Present Law of the Federal Tax Exemption for Charities and Other Tax- Exempt Organizations (JCX-29-05), April 19, 2005, at 187-88. Sevearl non-veteran tax-exempt entities have challenged this rule regarding lobbying and political activity on Constitutional grounds, but have not succeded in court. See, e.g., Branch Ministries v. Rossotti, 40 F. Supp. 2d 15 (D.C. Dist. 1999), aff'd, 211 F.3d 137 (D.C. Cir. 2000).

16. National Center for Charitable Statistics, "National Taxonomy of Exempt Entities," http://nccs.urban.org/classification/NTEE.cfm.

17. According to GuideStar, an information service specializing in reporting on U.S. nonprofit companies, the Form 990 is "an annual reporting return that certain federally tax-exempt organizations must file with the IRS. It provides information on the filing organization's mission, programs, and finances." The IRS further distinguishes between Form 990-PF (filed by all 501(c)(3) private foundations and 4947(a)(1) nonexempt charitable trusts), Form 990-N (an eight-question, electronic return that a nonprofit may file if its annual gross receipts are normally less than $50,000), Form 990-EZ (a two-page return that a nonprofit may file if gross receipts for a tax year were less than $200,000

and its assets were less than $500,000), and the Form 990 (or "long-form 990," for all filers if gross receipts surpassed $200,000 or assets surpassed $500,000). For more information, see GuideStar, "FAQs: Form 990," http://www.guidestar.org/rxg/help/faqs/form-990/index.aspx.

18. Joint Committee on Taxation, *Historical Development and Present Law of the Federal Tax Exemption for Charities and Other Tax- Exempt Organizations,* JCX-29-05 (April 19, 2005), http://www.jct.gov/x-29-05.pdf.

19. Nancy Berglass, "Investing in the Best: How to Support the Nonprofits that Serve Veterans, Service Members and Their Families" (Center for a New American Security, April 2012), 5.

20. The mission of the National Center for Charitable Statistics is "to develop and disseminate high quality data on nonprofit organizations and their activities for use in research on the relationships between the nonprofit sector, government, the commercial sector, and the broader civil society." For more information, see http://nccs.urban.org.

21. GuideStar is "an information service specializing in reporting on U.S. nonprofit companies." For more information, see www.GuideStar.org.

22. This report relies on two different data sets for its analysis – that collected and published by GuideStar, and that collected and published by the Urban Institute. We rely on these two datasets because each provides slightly different perspectives on the "sea of goodwill." Guidestar's data enables a more granular look at organizational type; Urban Institute data enables better geolocation by county. However, the two data sets do not align perfectly. Depending on the month and year, there is a 0.5 percent to 1.5 percent difference between the numbers of nonprofit organizations reported by each data set.

23. Urban Institute, *National Center for Charitable Statistics* data for W30 organizations (military and veterans), http://nccsweb.urban.org/tablewiz/bmf.php.

24. 8,104 of 42,035 organizations' revenue was unrereported in the Guidestar data; a similarly number show unknown or unrecorded revenue levels in the Urban Institute's data. This unreported group likely contains organizations in the process of going defunct, or organizations that file simplified tax returns using the IRS Form 990-N, such that their revenue and asset data does not get fully reported and transmitted to data clearinghouses like the large organizations.

25. Susan Raymond, Sally Park, and Jason Simons, "The Public Finance Crisis: Can Philanthropy Shoulder the Burden?" (Changing Our World Inc., 2011), 21.

26. The data used for the geographic distribution portion of this policy brief is current as of September 2014.

27. Peter Dobkin Hall, "Historical Perspectives on Nonprofit Organizations in the United States," in *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, ed. Robert D. Herman (San Francisco: Jossey-Bass, 2004).

28. Ibid.

29. Urban Institute's National Institute for Charitable Statistics.

30. The revenue figures are based on revenue reported by nonprofit organizations in their tax filings. Important, these revenue figures include revenue from all sources, including government grants, individual and corporate contributions, and grants from other nonprofit organizations. Several of the largest nonprofit organizations in this sector, such as the Wounded Warrior Project (WWP) and Bob Woodruff Foundation (BWF), engage in significant re-granting activity, with their funds directed to other nonprofit organizations in the sector. It is likely the case that these funds show up twice in the data – once as revenue for WWP or BWF, and then again as revenue for their respective grantees.

31. Hall, "Historical Perspectives on Nonprofit Organizations in the United States,"18; and Lester Salamon and Alan Abramson, "The Nonprofit Sector and the New Federal Budget" (Urban Institute, 1986), http://webarchive.urban.org/publications/201452.html.

32. Urban Institute, Nonprofit Sector in Brief, 2010, cited in Raymond, Park, and Simons, "The Public Finance Crisis: Can Philanthropy Shoulder the Burden?"

33. Raymond, Park, and Simons, "The Public Finance Crisis: Can Philanthropy Shoulder the Burden?"

34. An alternative theory is that giving to military and veteran causes has increased, but that a growing share of this giving has been captured by general charitable organizations, not those focused on the military and veteran community per se. Consequently, this giving activity does not show as revenue in the data for organizations with the W30 NTEE code.

35. Raymond, Park, and Simons, "The Public Finance Crisis: Can Philanthropy Shoulder the Burden?"

36. Author background interviews with executives at several major nonprofit organizations serving the veteran and military community.

37. See "Fundraising Agency SCA Direct Merged Into Russ Reid," *The NonProfit Times*, August 22, 2013.

38. Social impact investing uses a “pay for success” model. Rather than traditional philanthropic giving, impact investing provides “low-interest loans to nonprofits, making equity investments in companies that tackle social problems and investing a portion of a foundation’s endowment in enterprises that produce measurable benefits to society and a financial return.” Caroline Preston, “Getting Back More Than a Warm Feeling,” *The New York Times*, November 8, 2012, http://www.nytimes.com/2012/11/09/giving/investors-profit-by-giving-through-social-impact-bonds.html.

39. “2014 U.S. Trust Insights on Wealth and Worth Survey, Key Findings Briefing” (U.S. Trust, 2014), 28.

40. King County, *Veterans & Human Services Levy, 2013 Annual Report* (2013), http://www.kingcounty.gov/operations/DCHS/Services/Levy.aspx.

41. Gale Holland and Martha Groves, “VA unveils settlement to provide veterans housing on West L.A. campus,” *Los Angeles Times*, January 28, 2015.

42. “How Do We Rate Charities,” Charity Navigator, last visited July 14, 2015, http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1284#.VaUIybeJz0U.

43. “2014 U.S. Trust Insights on Wealth and Worth Survey, Key Findings Briefing.”

44. See “2014 U.S. Trust Insights on Wealth and Worth Survey, Key Findings Briefing” 40, reporting on the strong desire among wealthy donors of all generations to measure performance both by objective metrics and by personal goals and values.

45. See, e.g., the National Association of Veteran-Serving Organizations Funders Map, focused on grants and nonprofit organizations, http://www.navso.org/tools/fundermap; see also CNAS Veterans Data Project, focused on data regarding veterans and military personnel, http://www.cnas.org/content/veterans-data-project.

46. Several longitudinal studies now underway may produce data that can provide additional insight into this field, including the Millennium Cohort Study and the Henry M. Jackson Foundation’s Veterans Metrics Initiative.

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