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**2023 - 2024 Philanthropy Southwest Capstone
Economic Impact Executive Summary**

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Executive Summary

This project aims to provide Philanthropy Southwest (PSW) with an analysis of the economic impact of foundation giving in the southwestern region of the United States. The southwestern region includes the states of Arizona, Arkansas, Colorado, New Mexico, Nevada, Oklahoma, and Texas. Specifically, this project will extract grant data (the organization providing the grant and the dollar value of the grant) and grant impact data (the recipient organization expenditures) from IRS information returns (Form 990/Form 990-PF). This data will be used to determine the direct, indirect, and induced economic impacts of a grant. In addition to measuring the economic impact across the region, the data will be utilized to further analyze grantmakers and recipient organizations within the southwest region.

Background

The background and literature review section contains a summary of previous academic research concerning the definition and scope of philanthropy and the potential models for analyzing the economic and social effects of philanthropic giving. While there are multiple definitions of what philanthropy is, philanthropy will be defined in this report as the provision of public goods and services that governments do not provide or that are not readily accessible through markets. Between 2013 and 2022, giving by philanthropic foundations has more than doubled, with donations by foundations accounting for 21% of the total share of donations made in the United States (Indiana University Lilly Family School of Philanthropy, 2023). This highlights the growing importance of philanthropic foundations and the need for further research.

An input-process-output (IPO) model was determined to be the most effective analysis model for the scope of this project. Grants were identified as the inputs of this model. These grants to recipient organizations facilitated processes via those organization's programs, which ultimately led to outcomes. This model provides a simple yet effective means of measuring the total impact of philanthropic giving across the region. The measurements for the region were ultimately decided to be calculated using IMPLAN. IMPLAN is an economic impact assessment software system that is useful for analyzing economic changes at a specific point in time. IMPLAN is updated annually with the latest economic indicators, so users can enter the necessary inputs and get results based on the latest economic indicators, making it a good fit for this study. Data from the U.S. Census and Candid were used to conduct a preliminary analysis of philanthropic giving in the Southwest region to better understand the state of philanthropic giving by looking at data such as the different types of foundations in the region, the size of their assets and grants, and the number of grants they make.

Methods & Procedures

The primary research questions of this study include:

- What is the direct & indirect economic impact of philanthropy in the southwestern region?
- How does this impact differ between states, foundation type, state subregion, and giving priorities?

Additionally, the project seeks to explore the following secondary questions:

- How does giving by grantmakers differ between states, state subregion, giving priority, and foundation type?
- What are the characteristics of grant recipients by state, state subregion, giving priority, and foundation type?

The study utilized two primary datasets: the 2022 Candid Grants Sample Set and the 2022 Southwest Grant Recipient Expense Sample Set. The Candid Grants Sample Set contained 16,730 unique grant observations from Candid's databases of philanthropic giving. This data is sourced from IRS information returns (Form 990-PF for private organizations, Form-990 for community foundations and public charities), and foundation reports. Key variables were input variables focused on basic information about the grantmaker, recipient organization, and grant (transaction ID, organization name, state, foundation name, grant value).

The Southwest Grant Recipient Expense Sample Set included 1,500 grants randomly selected from the Candid Grants Sample Set. This sample included the input variables provided in the 2022 Candid Grants Sample Set as well as process variables that described recipient expenses. Process variables were extracted from recipient organization IRS information returns by the capstone team and included information such as salaries, individuals employed, program service expenses, management and general expenses, fundraising expenses, and total expenses.

To ensure data accuracy and reliability, rigorous quality control and data cleaning procedures were implemented for the 2022 Southwest Grant Recipient Expense Sample Set. Periodic reviews of extracted data were conducted by the capstone advisor and team lead to ensure alignment with reported data. Data cleaning focused on addressing inconsistencies and inaccuracies in IRS Form 990 documents submitted by recipient organizations. Four common mistakes related to program service expenses, management and general expenses, salaries, and individuals employed were corrected for in the dataset.

The 2022 Southwest Grant Recipient Expense Sample Set was weighted according to subregion and giving priority stratifications to account for oversampling in smaller subpopulations. To weight these appropriately, population sizes were estimated using grant population counts for states and subregions provided by Candid and percentages of grants given to giving priorities within each subregion in the 2022 Candid Grants Sample Set. Weights were assigned using Stata 17. Averages, ratios, and totals for key process variables were calculated after weighting for use in recipient and economic impact analyses.

Descriptive statistics were calculated for grantmakers utilizing the 2022 Candid Grants Sample Set. The analysis focused on differences in giving patterns between grantmakers based on the location of the grantmaker, type of foundation, and giving priority. Additionally, giving per capita was calculated using U.S. Census Data. The recipient analysis utilized the 2022 Southwest Grant Recipient Expense Sample Set to calculate descriptive statistics focused on differences in recipient organization characteristics and spending patterns.

The economic impact analysis was conducted using the 2022 Candid Grants Sample Set with IMPLAN software. Inputs to IMPLAN included total output (total grant value), total labor

income (total salaries as a result of grants), and total employment (total employment as a result of grants). These values were calculated using the total grant amount, salary to total expense ratio, and individuals employed to salary ratio. Key outputs included economic indicators such as output, value added, labor income, and employment. These indicators were divided into direct, indirect, and induced impacts.

Southwest Grantmaker Analysis

Key findings among four areas from the analysis can be discussed. This includes a state-level analysis; the total giving per capita; a giving priority analysis; and a foundation-type analysis.

The state-level analysis provides insights into the giving behavior of the seven states that encompass the southwest region. Texas holds the highest assets and giving amounts (\$104 billion, \$4.6 billion) while New Mexico has the lowest assets and giving amounts (\$1.7 billion, \$138 million) within the southwest after grants. Arkansas and Texas significantly vary due to large grant sizes, impacting the mean and standard deviations. The mean grant amounts for Arkansas and Texas are \$481,987 and \$191,893 respectively. This is much higher than New Mexico, the lowest, with a mean of \$33,995. With an overall state mean of \$138,399, this shows how there is some significant variance between states. The median grant amount for all states sits at \$10,000, except for Arkansas which has a median grant amount of \$19,989. The states where most grants remain are New Mexico and Oklahoma, with 73.50% and 72.25% remaining within the state respectively. Conversely, Nevada sees the majority of its grants leave the state, with only 27.50% of grants remaining within the state.

The total giving per capita is useful in determining giving patterns outside of just the total amount. Arkansas stands out with the highest total giving per capita at \$218, followed by Oklahoma with \$165. Colorado, Texas, and Nevada fall in the middle range, with \$118, \$89, and \$48, respectively. Arizona and New Mexico have the lowest total giving per capita at \$44 and \$41 respectively. This suggests varying levels of philanthropic engagement and economic capacity among the states in the southwest region.

The giving priority analysis provides information on the specific areas being impacted by philanthropic activity. Education and Human Services giving priorities receive the highest number of grants (19,804 and 23,467) and total giving amounts (\$990,645,933 and \$870,346,286). The Social Sciences giving priority had the lowest number of grants and total giving amounts with 406 grants and a total giving amount of \$19,459,158. Most giving priorities have a median grant amount of \$10,000. The Community & Economic Development giving priority stands out with a median grant size of \$15,000. Sports & Recreation and Human Services have the highest percentages of assets remaining in the southwest after grants, with 71.50% and 70.50% respectively. Agriculture, Fishing, Forestry, and International Relations see a significant portion of grants leaving the region, with 78% and 68.5% respectively.

The foundation type analysis provides information on the behavior of the four types of foundations analyzed in this report. Independent Foundations have the highest assets and giving amounts, while Community Foundations retain the highest percentage of assets within the



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southwest after grants. Independent Foundations offer the most, while Corporate-Sponsored Foundations provide the least. The mean grant amount for Corporate Foundations is \$17,344, which is much lower than the mean grant amount for Community Foundations at \$73,603. Operating Foundations and Independent Foundations grants sit in the middle with means of \$43,526, and \$66,440 respectively. The median grant amount by type also shows significant variance, with Corporate Foundations having \$1,075; Operating Foundations, 5,000; Independent Foundations, 10,000; and Community Foundations, having \$15,807.

Overall, the grantmaker analysis provides valuable insights into the dynamics and behaviors across different categories and foundation types within the southwestern United States. This aids in understanding regional contributions and impact. Understanding the details of where money is coming from is helpful in understanding philanthropic impact overall.

Southwest Recipient Organization Analysis

This project further analyzed the behavior of grant-receiving organizations by considering differences in grant sizes, number of compensated individuals, and expense purposes by location of the recipient organization (state and subregion), giving priority of the grant, and type of foundation providing the grant. This data provides insight into what recipient organizations are doing with the money they receive.

Across the region, the average grant received was \$56,660. The average grant received in Arkansas and Nevada is higher than the average grant amount received in the region, with average grant sizes of \$123,462 and \$108,462 respectively. New Mexico's average grant size received is lower than that of the other states, with an average grant size of \$17,420. The remaining states' average grant sizes range between \$41,584 and \$78,910. The average recipient organization across the region compensates 190 individuals. Recipient organizations within Nevada have the lowest average number of employees, with only 75 employees. Arkansas and Arizona recipient organizations have the highest average number of employees with 296 and 229 employees, respectively. Across the region, 83.20% of all expenditures are invested in the programs of the recipient organizations, with comparatively little variation. Oklahoma recipient organizations see a higher percentage of expenditures used to fund programs with 88.22% of expenses being directly invested into the programs, with Colorado seeing the smallest percentage at 78.57%.

For subregions, recipient organizations in Little Rock, Las Vegas, and Tulsa saw the largest grant sizes with each having an average grant value above \$100,000 while Albuquerque/Santa Fe recipients have the lowest average grant size of only \$13,542. Recipient organizations within Little Rock, Dallas/Fort Worth, and Phoenix have the highest average of employees, with an average of 484, 312, and 290 employees respectively. Recipient organizations within the Rest of Texas subregion have the lowest average number of employees with only 46 employees per organization. Of the 19 subregions studied within this project, there is slightly more variation among recipient organizations regarding the percentage of funds used to finance programs. Recipient organizations within the Rest of Oklahoma subregion saw the lowest percentages of funds invested into their programs, with 75.52% of funds being invested into program services. Recipient organizations within the Tulsa and Houston subregions were the



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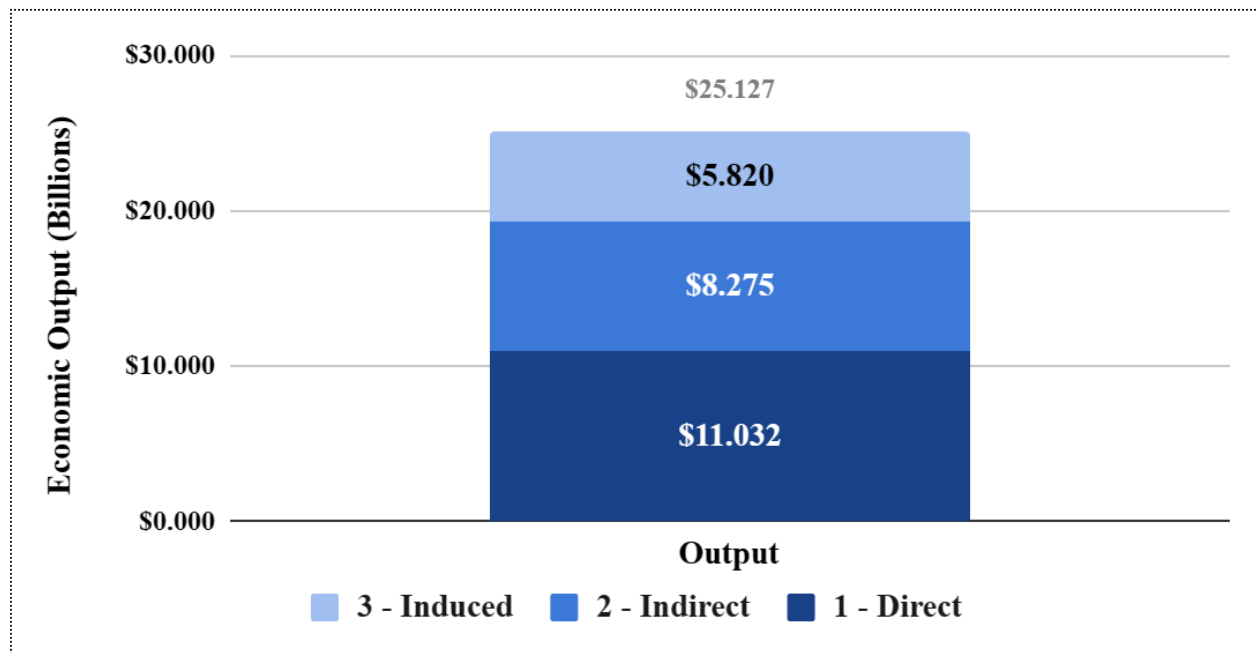
only organizations to have a program service to total expenditure ratio of more than 90%. Recipient organizations within the Rest of Arizona, the Rest of Oklahoma, and the Rest of Colorado subregions see the highest percentage of funds being used for fundraising, with 11.20%, 10.78%, and 10.43% of funds being invested into fundraising, respectively.

Economic Impact Analysis

The primary interest of this research project is the analysis of the economic impact of foundations within the Southwestern United States. Through an analysis of key economic indicators such as output, value-added, labor income, and employment, this report identifies the direct, indirect, and induced impact of grantmaking institutions by region, state, subregion, giving priority, and foundation type.

Philanthropic foundations across the region directly generated over \$11 billion in economic impact via their grantmaking (Figure 1). In addition to those direct economic impacts, the Southwestern United States saw an additional \$8.2 billion in indirect impact and \$5.8 billion in induced impact attributed to philanthropic foundations. In total, these philanthropic foundations generated over \$25 billion in total impact across the seven-state region.

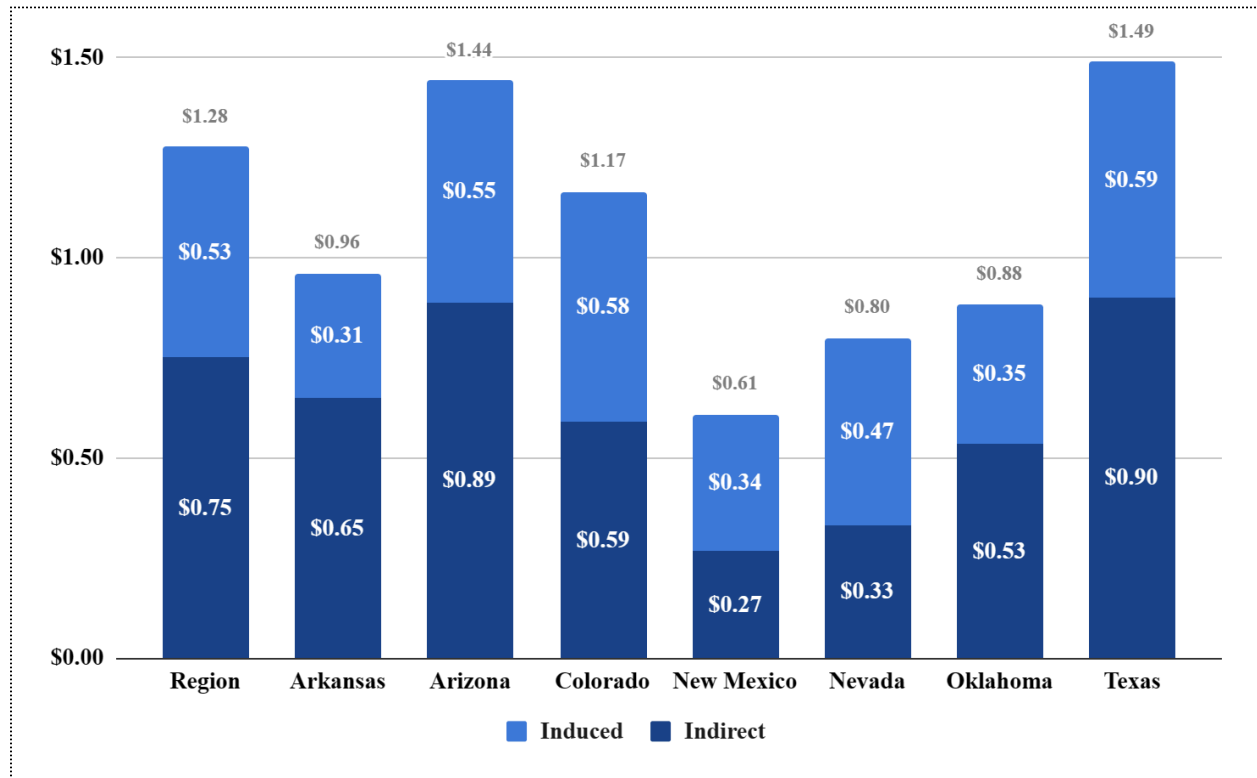
Figure 1. *Regional Economic Impact (Billions)*



For every dollar spent on grants by a philanthropic foundation in the southwest region, an additional \$1.28 was generated in economic impact. Recipients of grants within Texas and Colorado saw the highest return on investment (ROI) with an additional \$1.49 and \$1.44 generated for every dollar spent by grantmaking institutions, respectively (Figure 2). Recipient organizations within New Mexico saw the lowest ROI of an additional \$0.61 generated per dollar spent (Figure 2). Texas holds the largest share of total economic impact with \$13.262 billion in

total economic impact, which consists of over half of the total economic impact in the region. Colorado saw the next largest economic impact with \$4 billion, followed by Arizona with \$2.69 billion, Arkansas with \$1.955 billion, Oklahoma with \$1.927 billion, Nevada with \$1.081 billion, and New Mexico with \$0.207 billion.

Figure 2. Regional Return on Investment



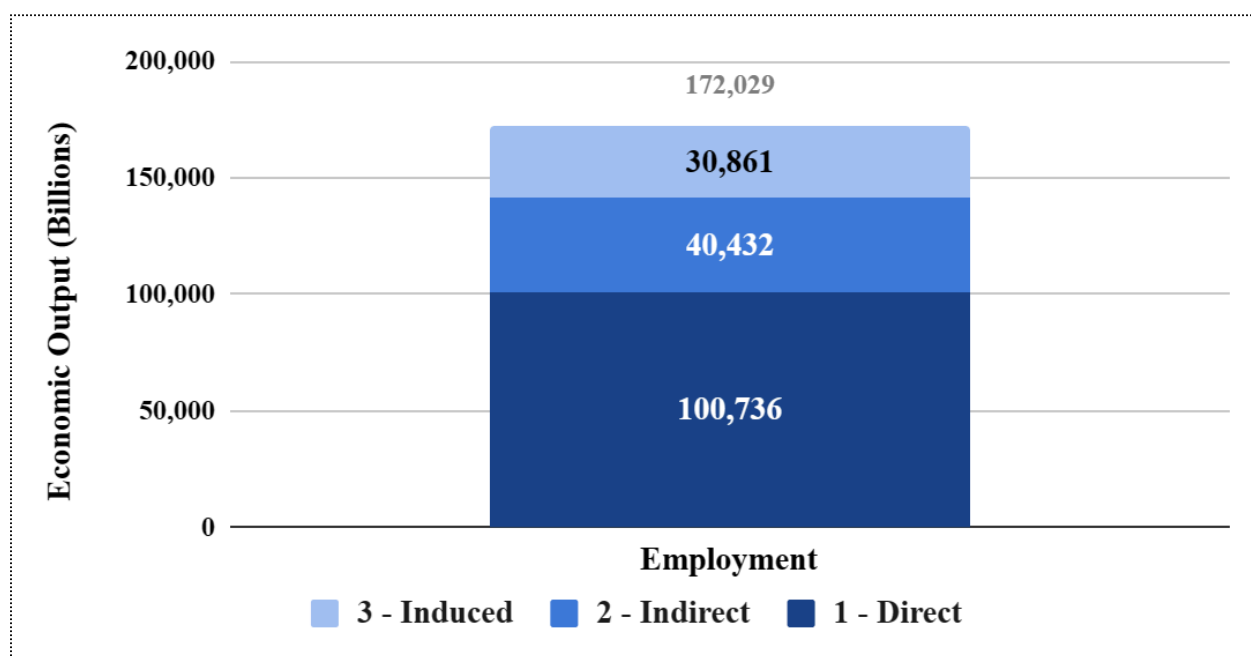
The variation of ROI between states, subregions, and giving priorities could be an interesting topic for future research. At a regional level, there is a good degree of variation in ROI. This could be partially attributed to the overall strength of the local economies and local labor forces. For example, Texas has a much larger labor force and economy in comparison to New Mexico. Therefore, the overarching economic conditions of the state may have an impact on how much ROI is generated by philanthropic foundations.

Large, urban subregions tended to see the most economic activity generated from philanthropic grantmaking compared to non-metropolitan subregions consisting of rural areas and small- to mid-sized cities. Metropolitan subregions saw an average additional impact of \$1.06 per dollar invested, while the subregions consisting of non-metropolitan areas saw an average additional impact of \$0.58 per dollar invested. However, the metropolitan region of Albuquerque/Santa Fe is a significant outlier with only \$0.04 in additional economic impact generated per dollar spent. The Dallas/Fort Worth, Houston, and Austin subregions see the largest total economic impact, with each region seeing over \$3 billion in total impact. Grants

given to the Austin, Dallas/Fort Worth, and Houston subregions created more jobs than other subregions, with 31,848, 25,080, and 18,771 jobs created, respectively.

In addition to their significant economic impact, philanthropic foundations directly support 100,736 jobs within recipient organizations, and an additional 71,293 jobs within support industries of the nonprofit sector (Figure 3). In terms of jobs created across the region, grants received by Texas organizations created more jobs than other states (84,528 jobs). Colorado saw the second largest number of jobs created with 29,457 jobs created, followed by Arizona with 15,350 jobs, Oklahoma with 14,767 jobs, Arkansas with 14,489 jobs, Nevada with 11,481 jobs, and New Mexico with 1,954 jobs created in total.

Figure 3. Regional Job Creation



Of the 17 giving priorities, the highest ROI came from the Religion and Human Services giving priorities, with an additional \$2.46 and \$2.09 generated per dollar invested, respectively. The giving priorities with the lowest return on investment were the Philanthropy & Nonprofit Management and Human Rights priorities, with an average return on investment of \$0.55 and \$0.57 generated per dollar spent. The ROI of the remaining 13 giving priorities range from \$0.61 to \$1.16 in additional generated economic impact per dollar spent. Recipients of grants for the Arts & Culture, Community & Economic Development, Education, Health, Human Services, and Religion giving priorities saw the highest amount of total economic impact. Grants for the Human Services giving priority led to \$7.748 billion in total economic impact, followed by Education with \$4.212 billion, Religion with \$3.596 billion, Health with \$1.743 billion, Arts & Culture with \$1.654, and Community & Economic Development with \$1.174 billion. The giving priorities that saw the largest number of jobs created were the Human Services and Education giving priorities with 43,848 and 30,701 jobs created.

Corporate Foundations saw the highest ROI with \$1.38 generated per dollar spent, followed by Independent Foundations with \$1.16 generated per dollar spent, Community Foundations with \$1.08 generated per dollar spent, and Operating Foundations with \$1.06 generated per dollar spent. Of the four foundation types, Independent Foundations tend to have the highest total economic impact and the highest number of jobs created, with a total of \$8.061 billion in total economic impact and a total of 56,095 jobs created. This aligns with the larger quantity of grants provided by Independent Foundations. Community Foundations created \$2.767 billion in total impact and contributed to 22,247 jobs, Corporate Foundations created \$1.201 billion in total economic impact and contributed to 8,765 jobs, and Operating Foundations created \$832 million in total economic impact and contributed to 4,080 jobs.

Limitations

Any economic study utilizing secondary data has inherent limitations around said data. Most commonly, these limitations can include data gaps, potential biases in data collection, limited control over the data collection process, time lags and outdated information, data compatibility, and the way issues are standardized. Our capstone team acknowledges that these limitations can impact this report's data.

For the specific content of this report, one major limitation was the lack of an adequate sample of small and religious organizations. This is due to stipulations from IRS guidelines that dictate religiously affiliated organizations and organizations with small annual budgets (\$50,000 or less) are not required to file a 990 form with the IRS. As such, these organizations had to be excluded. Of the 1,500 samples, 47 were missing tax returns for FY 2022, which were replaced with FY 2021 returns. Another limitation is the sample size of 1,500 grants itself. Since this project was unable to look at every individual piece of data for the region as a whole, there are inherent risks with using samples. One potential risk, for example, related to the sample is that the sample the team received from Candid may not have been truly representative of the philanthropic activity in the region. Through the careful assessment of the quality and relevance of data, however, these issues have been limited as much as possible.

Two other limitations in this research are the extent to which social impact and volunteer labor affect philanthropy in the southwest region. The less-tangible nature of social impacts and non-paid labor are important but were not able to be adequately measured in the bounds of this report. As such, these factors should be considered in future research.

Conclusions

This capstone team has found that philanthropy has a definitive impact on supporting the economy of the southwest region of the United States. Particularly, this research has given a stronger understanding of giving across states, foundation types, state subregions, and giving priorities. While the impact across these categories varies, it is clear that overall, philanthropic giving in the southwest region sees a significant return on investment. Moreover, this report catalyzes future investigations into the multifaceted nature of philanthropy's influence on the socio-economic landscape of the southwest region.



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