



**Testimony of Joanne V. Florino
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**“The Economic and Employment Impact of the Arts and Music Industry”
U.S. House of Representatives Committee on Education and Labor
10:00 a.m., March 26, 2009
2175 Rayburn House Office Building
Washington, D.C.**

Good morning Chairman Miller, Ranking Member McKeon and Members of the Committee. Thank you for the opportunity to testify before you on the value of foundation giving to the arts community and potential threats to that giving.

My name is Joanne Florino and I am the Executive Director of the Triad Foundation. Based in Ithaca, New York, Triad Foundation is a family foundation which makes over \$9 million in grants each year – a significant portion of our grantmaking goes towards arts education and cultural programs in the states of New York, Florida and North Carolina.

Additionally, I am here on behalf of the Alliance for Charitable Reform, founded in 2005 as a project of The Philanthropy Roundtable which represents over 600 private foundations across the United States. Specifically, ACR was formed to respond to legislative proposals here on Capitol Hill that affect foundations and the charities they support.

The arts community, as I'm sure you're aware, relies heavily on private contributions. In fact, according to the National Endowment for the Arts' most recent data, private contributions accounted for 43% of arts organizations' financing, or \$13.5 billion, compared to 13% from government.¹ The Triad Foundation is proud to be among the many foundations who give generously to these causes. For example, Triad Foundation made a \$1 million challenge grant, which stimulated a \$1 million match by several donors in Charlotte. ImaginOn is the home of the Children's Theater of Charlotte and the Public Library of Mecklenburg County. The opportunity to co-locate these two outstanding organizations has resulted in increased and more accessible arts and cultural

¹ Cowen, Tyler. How the United States Funds the Arts. Publication. Comp. Sunil Iyengar, National Endowment for the Arts. Jan. 2007. National Endowment for the Arts. <<http://www.nea.gov/pub/how.pdf>>.

education programs for the youth of that community – a priority of the Triad Foundation.

As you know, there is a proposal in President Obama's FY 2010 budget that could have a chilling effect on a significant portion of private giving – particularly as it relates to arts organizations. The proposal would, in essence, make it more expensive for individuals to contribute to charities, either directly or through foundations, by limiting the value of the itemized deduction individuals receive for making such gifts. The proposal is intended to raise revenue to help pay for the President's health care reforms.

For those individuals earning over \$200,000 and families over \$250,000 – many currently taxed in the 33% or 35% income tax brackets – the proposal would limit the value of the deduction to 28%. For example, under current law, if a donor in the 35% income tax bracket makes a charitable contribution of \$1,000, the donor would receive a maximum deduction of \$350. Under the Administration's proposal, using the same example, the itemized deduction would be reduced to a maximum of \$280. According to the Indiana University's Center on Philanthropy, the proposal represents a 20% increase in the cost of giving for every dollar contributed.²

On behalf of both the Triad Foundation and the Alliance for Charitable Reform, I believe this proposal is a step in the wrong direction at a time when Americans and the government are relying more – not less – on the nonprofit sector.

Deteriorating economic conditions are forcing charities to face higher demands for services with fewer resources. For example, the Midnight Mission Shelter in Los Angeles estimates that the economy is forcing them to provide 15,000 more meals each month, even though donations are down \$200,000 from the previous year.³ As you know, the arts community is not immune to these budgetary challenges. The Wall Street Journal reported that the Baltimore Opera's Board recently voted to liquidate the organization and the Detroit Institute of the Arts reduced 20% of its staff as part of a \$6 million budget cut.⁴

Others in the community are echoing this sentiment and, in fact, the head of development for the American Red Cross, Jeffrey Towers, called this "the worst fundraising environment he's ever worked in."⁵ To further illustrate this point, a January 2009 study by MetLife concluded that cash flow concerns have trumped charitable giving - 40% of Americans are now giving less often to charities.⁶ And, a recent survey conducted by the Council of Foundations concluded that

² Rooney, Patrick - Indiana University Center on Philanthropy. "Obama's Charitable-Giving Plan: What It Means for Nonprofit Groups Online Discussion." Interview. The Chronicle of Philanthropy. 11 Mar. 2009. <<http://philanthropy.com/live/2009/03/obama/index.shtml>>.

³ Tracy, Ben. "Obama's Budget to Heavily Tax Wealthy." CBS News Report. 26 Feb. 2009.

⁴ Specter, Mike. "Arts Groups Lose Out in Fight for Funds." The Wall Street Journal 18 Mar. 2009.

⁵ McCoy, Kevin, and Oren Dorell. "It's a hard time to be a charity." USA Today 27 Oct. 2008.

⁶ MetLife. The 2009 MetLife Study of the American Dream: An Opportunity for Policymakers to Help Keep the Dream Alive.

foundation assets have, on average, dropped 28% over the past year due to market shortfalls.⁷

At Triad, we have seen similar losses. Since October 2007, our foundation's assets have declined by approximately 40%. In order to honor our current multi-year commitments and, at the same time, provide funding for emergencies, unmet needs, and unexpected opportunities, my Board has agreed to give out a more significant percentage of our assets this year than in previous years. That said, this decision has raised questions to our long-term sustainability. But, as an organization, we are committed to stepping up to the plate.

The Administration's budget proposal comes at a terrible time. Recently, the Tax Policy Center, a joint venture between the Brookings Institute and the Urban Institute, estimated that the itemized charitable deduction (coupled with higher tax rates on individuals) would result in a \$9 billion drop in annual giving in 2011⁸ – which is roughly triple the annual budget of the American Red Cross.⁹

Who loses under this proposal? Those that most heavily rely on private giving – specifically, those dedicated to arts education, music, and cultural programs which are reported to receive 43% of their financing from private giving.¹⁰

According to a recent survey commissioned by The Philanthropic Collaborative, the investment made by foundations in the charitable community generates tremendous economic activity. Specifically, for every dollar provided in grants and support across the country, there was an average estimated return of \$8.58 in direct and indirect economic benefits.¹¹ Looking at the arts community in particular, the study estimates that for every foundation dollar invested in these programs, the average estimated return on this investment was \$9.44.¹² Clearly, given the current environment, we need to do more to incentivize this type of giving that has proven, thus far, to be so effective.

Now, more than ever, is the time to ENCOURAGE private giving. We respectfully request that Congress enact policies to do just that. In contrast to the Administration's proposal, responsible incentives should be enacted to stimulate giving across the country to strengthen the nonprofit sector – from our local museums to soup kitchens.

⁷ Council on Foundations. Asset Declines and Investment Strategy Changes by Family, Independent, and Public Foundations. Publication. 2 Feb. 2009. Council on Foundations.

<<http://www.cof.org/files/Documents/Conferences/09FamPhilConf/EconSurvey4.pdf>>.

⁸ Burman, Len. "Would Obama's Plan to Curb Deductions Hurt Charities?" Weblog post. Tax Vox: the Tax Policy Center Blog. 3 Mar. 2009.

<http://taxvox.taxpolicycenter.org/blog/_archives/2009/3/3/4110968.html>.

⁹ Schwinn, Elizabeth. "Budget Woes Force Red Cross to Lay Off Many Employees." Chronicle of Philanthropy. 24 Jan. 2008.

¹⁰ Cowen, Tyler. How the United States Funds the Arts. Publication. Comp. Sunil Iyengar, National Endowment for the Arts. Jan. 2007. National Endowment for the Arts. <http://www.nea.gov/pub/how.pdf>.

¹¹ Shapiro, Robert J., and Aparna Mathur. The Social and Economic Value of Private and Community Foundations. Rep.2009. The Philanthropic Collaborative.

¹² Shapiro, Robert J., and Aparna Mathur. The Social and Economic Value of Private and Community Foundations. Rep.2009. The Philanthropic Collaborative.

Specifically, Congress can take immediate steps to put more dollars in the hands of charities. First, Congress should reduce and simplify the excise tax private foundations pay on their net investment income from 2% to 1%. This two-tiered excise tax effectively creates a disincentive for foundations to give more in times of great need – like now. A reduction in the excise tax rate to 1% for all private foundations would make more dollars available to be given to charities. ACR supports legislation to roll back this tax.

Second, Congress should extend and expand a popular incentive enacted after Hurricane Katrina – to drive more dollars to charities. The IRA Charitable Rollover provision would allow Americans over the age of 70 ½ to contribute up to \$100,000 from their individual retirement accounts (IRA) to charity, without having to declare the contribution as income for the year. This incentive is scheduled to expire at the end of 2009. We recommend it be extended and expanded to encourage additional private giving.

Both of these provisions would stimulate and encourage additional giving to nonprofit organizations, including arts organizations, in desperate need of resources. By further incentivizing – not discouraging – charitable giving Congress can ensure that Americans will continue to have access to these important and valuable services that they have come to rely upon from the nonprofit sector.

I would like to close with this – foundations have served as indispensable laboratories for innovation and entrepreneurship, addressing many of society's greatest challenges. We offer creative solutions to meet unique and diverse needs of America's communities. They are, and will continue to be, a vital part of our society and our economy.

I appreciate the opportunity to appear before the Committee and share my thoughts on these issues and would welcome any feedback or questions that the Committee may have for me.

The Alliance for Charitable Reform is a project of The Philanthropy Roundtable, a 501(c)(3) tax-exempt organization. ACR represents charitable organizations, including private foundations, family foundations, and public charities.