

Now You're Tax-Exempt, Now You're Not: The Case of Florida Assisted Living Facilities

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ABSTRACT

This paper is motivated by a statewide legislative change in Florida that affected assisted living facilities (ALFs) by inadvertently removing the property tax exemption for those operated by nonprofit organizations. As such, this paper addresses two research questions: 1) Are there systematic differences between Florida's for-profit- and nonprofit-designated assisted living facilities in terms of operations and service provision? And 2) What was the impact, if any, of losing and re-gaining their property tax exemptions on the operational cost structure and service provision of Florida's nonprofit assisted living facilities? We use data from the Florida Agency for Health Care Administration (FAHCA) to conduct difference of means testing for-profit versus nonprofit ALFs, as well as annual financial data (2002-2018) of each ALF owners' IRS form 990 filing from the NCCS Core Files and the IRS and parcel level data from the state of Florida to conduct regression analysis using ten different dependent variables measuring various components of nonprofit ALF operations. We find that nonprofit ALFs have greater legitimacy in service delivery than for-profits, as nonprofit ALFs have greater service capacity, quality, and variety than for-profit ALFs in Florida, and nonprofit ALFs have less ownership turnover and more nursing staff for residents. However, eliminating the property tax exemption for nonprofit ALFs in Florida had essentially no effect on their operations, with the exception of marginal evidence of decreases in total expenses.

INTRODUCTION

Property tax exemptions are the most widespread and substantial in terms of foregone government revenue among the tax benefits granted to nonprofit organizations (Brecher & Calabrese, 2015), yet research on this aspect of state and local tax policy is rather limited. Much of the research on nonprofit property tax exemptions focuses on the rationale or justification for the exemption: nonprofits provide public services collaboratively or in lieu of government provision or to address market failures (Sjoquist & Stoycheva, 2018). In addition, several studies have examined the market share of nonprofit versus for-profit firms within which service sectors they often compete, most notably hospital care, to determine the extent to which property tax exemptions are influential, and the results are generally mixed (Chang & Tuckman, 1990; Gulley & Santerre, 1993). Most recently, Sjoquist and Stoycheva (2018) offered a comprehensive review of extant research and concluded, “We could identify no efforts to determine whether the magnitude of the tax exemptions affects the cost structure or the nature of the services provided by nonprofits” (p. 393). However, due to a statewide legislative change in Florida that affected assisted living facilities by inadvertently removing the property tax exemption for those operated by nonprofit organizations, we help to fill this void.

We use the context of this legislative change to answer the following research questions:

1) Are there systematic differences between Florida’s for-profit- and nonprofit-designated assisted living facilities (ALFs) in terms of operations and service provision? and 2) What was the impact, if any, of losing and re-gaining their property tax exemptions on the operational cost structure and service provision of Florida’s nonprofit assisted living facilities (ALFs)? We conduct our analysis on the population of assisted living facilities within the state of Florida. Specifically, we determine the cost structure and nature of services provided by each ALF in the

time period prior to, during, and after the legislative change affecting the property tax exemption status of those ALFs owned and operated as nonprofits compared to for-profits using data collected from the Florida Agency for Health Care Administration (FAHCA), the Core Files from the National Center for Charitable Statistics, and the Internal Revenue Service during 2002-2018.

Our paper proceeds as follows. First, we discuss the practice of exempting nonprofit organizations and the controversy and implications surrounding this historical trend as studied in extant research. We then describe the state of Florida's tax treatment of nonprofits generally, and the legislatively changing property tax treatment of assisted living facilities specifically. This discussion is followed by a presentation of our methodologies and model specifications we employ to address our two research questions. We then discuss our empirical results and follow with directions for future research in our concluding section.

JUSTIFYING NONPROFIT TAX EXEMPTIONS

Dating back to the 18th century, property tax exemptions granted to charitable organizations are widespread with 17 state constitutions mandating such exemptions plus another 17 states authorizing the legislatures to provide exemptions (Brecher and Calabrese, 2015). Through modern interpretation and application, the Equal Protection Clause, the Contracts Clause, the Commerce Clause, and the First Amendment to the U.S. Constitution allow states to enact tax policies granting exemptions to charitable nonprofit organizations so long as the legislation is neutrally designed and equally administered (Brody, 2007). Rooted in economic theory, nonprofit tax exemptions are typically justified on claims that nonprofits provide important services to individuals who could otherwise not afford them, and such services produce positive externalities that go beyond individual benefits and accrue to improve society

as a whole (Brecher and Calabrese 2015). Specifically, given their community service mission, nonprofits are more likely to serve needier and low income clients (O'Regan & Quigley, 2000). In addition, nonprofits are more community-orientated and therefore tend to operate in more distressed neighborhoods and focus greater attention on broader neighborhood benefits (Crowe, 1996; O'Regan & Quigley, 2000). In fact, Colombo (2006) suggested that tax exemptions are not necessarily intended to promote a particular behavior but rather to endorse a particular organizational form, which is justified on the notion that nonprofits perform better than for-profits on measurable outputs like cost and service quality and also on intangible benefits like trust and community orientation. Through their examination of housing rehabilitation projects and comparison of nonprofits to for-profit organizations, Ellen and Voicu (2006) found nonprofits are more likely to operate in the most disadvantaged areas of distressed neighborhoods, to induce spillover benefits that are sustained over a longer period of time, and to make investments that benefit the broader community.

Nonprofit tax exemptions are also justified on the basis of the nondistribution constraint, which some suggest makes it difficult for nonprofits to raise capital; therefore, they may not achieve the same economies of scale as their for-profit counterparts (Steinberg, 1998; Frumkin, 2002; Ellen and Voicu, 2006). Simply receiving a charitable classification under section 501(c)(3) of the Internal Revenue Code, however, does not automatically entitle a charitable organization to a property tax exemption (Brody, 2007). Most states require charitable nonprofits to satisfy a multifactor test that reduces government burden for service provision, maintains a level of donated services, and/or requires nonprofits to both own the exempt property and use it for charitable purposes (Brody, 2007). For example, in *Provena Covenant Medical Center v. Illinois Department of Revenue*, 236 Ill. 2d 368, 925 N.E.2d 1131, 339 Ill. Dec. 10 (2010), the

Illinois Supreme Court upheld the denial of a property tax exemption to Provena Hospitals, because its subsidiary Provena Covenant failed to provide sufficient charity care (amounting to only 0.723% of revenue for the tax year in question). In doing so, the Court defined the requisite charity care provision as “a gift for the benefit of an indefinite number of people” (p. 7) and thereby established the condition that charitable organizations must relieve some burden and provide some compensating benefit to the government(s) that are foregoing revenue to justify an exemption from taxation (Bernert and Swift, 2011).

Such favorable tax treatment of nonprofit organizations, however, is not without controversy. The local property tax exemption in particular is controversial, because the value of the exemption is based upon the value of property owned by a nonprofit and not at all linked to the value and/or quantity of services provided, thereby inefficiently incentivizing ownership of high-value property (Brecher and Calabrese 2015). For example, using the 2008 Core Data file from the National Center for Charitable Statistics (NCCS), Cordes (2012) calculated the predicted probabilities of nonprofit organizations reporting on their Return of Organization Exempt from Income Taxation (IRS form 990) ownership of at least \$100,000 in land, buildings, and equipment, which all may be granted exemption from taxation. Nonprofit organizations with a primary activity, as defined by the IRS, of housing maintained the largest probabilities no matter the size of the organization (Cordes 2012). In addition, Cordes (2012) noted that nonprofits with mission-supporting services that require large amounts of real property are more likely to own real property and also to experience a higher ratio of property tax savings to total revenue, thereby benefitting more from property tax exemptions than less capital-intensive nonprofits.

Duggan (2000) examined the operations of hospitals in response to a California state policy that incentivized indigent care and found nonprofit hospitals to be as responsive as for-profit hospitals in reacting to the change in financial incentive. However, Duggan (2000) found nonprofit and for-profit hospitals both increased their asset holdings as a result of the revenue benefit realized from the policy change, suggesting nonprofit hospitals were no more altruistic than for-profit hospitals in terms of working to improve the quality of their medical care for the poor. Similarly, Schneider (2007) examined hospitals in California and found the value of community benefits provided by a tax-exempt private hospital were roughly equivalent to those provided by an investor-owned hospital when operating in similar markets. These findings are troubling considering the aggregate value of tax exemptions granted to nonprofit hospitals alone has been estimated to be over \$24.6 billion (Rosenbaum et al, 2015). Moreover, it is estimated that local governments forego approximately 4 to 8 percent of their total property tax revenue each year to exemptions granted to charitable nonprofits, hospitals, and universities (Kenyon and Langley, 2016).

Despite legislative attempts in some states to abolish property tax exemptions for nonprofits, especially during the aftermath of the Great Recession when state and local governments were severely fiscally strained, such benefits for nonprofits have generally been upheld by state supreme courts and legislatures even while payments in lieu of taxes have had little success in replacing the tax revenue lost through exemptions (Brody 2010). However, the growth of nonprofit organizations in terms of number, size, dependence on government funding as opposed to donations, and competitiveness with for-profit providers (Brecher and Calabrese 2015) warrants investigation into the continued justification for nonprofit tax exemptions and the extent to which such benefits affect the delivery of important services provided by nonprofits.

For example, Ellen and Voicu (2006) found that, in the case of small projects, nonprofit organizations delivered significantly lesser neighborhood benefits than their for-profit counterparts, which the authors attribute to typical capacity issues rooted in the nondistribution constraint that often present challenges for smaller nonprofits. While not directly assessing nonprofits providing housing, Grimm Jr. (1999) evaluated 219 nonprofit organizations in Indianapolis to determine the number that would retain their property tax exemption based upon a donative index score of 50 percent or higher as espoused by Colombo and Hall's (1995) Donative Theory, which validates the tax treatment of nonprofits by their production of public goods, and found that many of the organizations fell below the threshold as they generated larger amounts of their revenue from sources other than donations.

IMPLICATIONS OF NONPROFIT TAX EXEMPTIONS

Behavioral responses of nonprofits to a property tax exemption include 1) increasing the quantity and/or quality of goods and services provided, 2) increasing the quantity of goods and services provided that produce positive externalities, and/or 3) accommodating more costly production processes (Sjoquist and Stoycheva 2018; Steinberg 1991). In addition, some scholars have argued that the property tax exemption might influence the market share of nonprofit and for-profit firms and/or influence the organizational form depending on the net benefit of exemption value to the constraint on income distribution (Sjoquist and Stoycheva 2018). For example, in their examination of state-level panel data of five-year increments matching the Census of Governments data, Gulley and Santerre (1993) found higher local property tax rates to be associated with a higher market share of nonprofit hospitals as well as a lower market share of public hospitals. Evidence such as this has led some scholars to suggest, "The property tax exemption is an implicit subsidy to nonprofit organizations that could increase the size of the

nonprofit sector over what it would be in the absence of the exemption” (Sjoquist and Stoycheva 2018, 399).

On the other hand, Hansmann (1987) calculated statewide weighted averages of effective real property tax rates to measure the value of average property tax exemptions among states and found limited support for a positive correlation between property tax rates and nonprofit market share (only for vocational schools separately or when primary and secondary schools are omitted from pooled estimates) that is modest in magnitude compared to other types of taxes. In addition, Chang and Tuckman (1990) analyzed the market share of hospitals in Tennessee and found that although higher property tax rates increase the likelihood of having fewer hospitals in a county, there is no greater probability that the hospital will be a nonprofit, thereby denying credibility to the argument that property tax rates have an effect on the market share of nonprofits.

Harrison (2008) utilized organizational tax return data to examine the locational choices of nonprofits from a supply-side perspective and determine the extent to which various tax exemptions influence firm choice. The author found that new firms tend to locate in higher tax states as individual tax rates are important considerations in nonprofit location decisions for those nonprofits heavily reliant on donation revenue; nonprofits with large portions of mission-related revenues are particularly more sensitive to property tax rates (Harrison, 2008). As a result, Harrison (2008) concludes that nonprofits in direct competition with for-profit firms, and particularly nonprofits with more service-related revenues, seek out the competitive advantage of the property tax exemption by locating in higher property tax states.

Cordes (2012) notes that to the extent localities are able to increase their property tax rates to offset revenue losses and the property tax incidence can be shifted from owners to tenants in the form of higher rents, non-property-owning nonprofits who are required to pay

property taxes help to subsidize the exemptions granted to nonprofit owners. The author estimated the value of the property tax exemption for nonprofit property owners to be equivalent to a several percentage-point increase in revenue (Cordes 2012). This lost property tax revenue can pose significant fiscal constraints upon local governments and shift the tax burden onto homeowners and businesses (Kenyon and Langley, 2016). For example, Calabrese and Carroll (2012) examined the connection between the prevalence of nonprofit organizations with tax-exempt property, plant, and equipment within U.S. counties and the property tax burden imposed upon county residents. Focusing on counties with populations of 65,000 or greater for years 2005 and 2006, the authors found that when the aggregate value of nonprofit fixed assets is 10 percent above the countywide average of \$15.4 million, homeowners within the county should expect to pay an average of \$2 to \$24 more in property taxes as a percentage of their income or \$3 to \$12 more as a percentage of their home value (Calabrese and Carroll 2012). Finally, research on hospitals suggests the property tax exemption might influence the capital-labor ratio and/or organizational/operational size; possibly, the capital-land ratio is also affected, but no study examines this issue (Sjoquist and Stoycheva 2018). “In summary, we know very little. There is very little theoretical work and even less empirical analysis of hypotheses regarding the effects of the property tax exemption” (Sjoquist and Stoycheva 2018, 386).

FLORIDA’S TAX TREATMENT OF NONPROFITS

Florida statutes define the tax treatment of nonprofit organizations for a variety of taxation. Each tax is treated as separate, and the federal designation as a 501(c) organization is not necessary for the treatment of the organization as a nonprofit organization. In the case of Florida corporate income tax policy, tax-exempt organizations that have unrelated trade or business income, for federal income tax purposes, are subject to Florida corporate income tax

policy. In the case of sales taxation, Florida statutes sections 212.08(7) and 213.12(2) dictate the obtainment of the “Certificate of Exemption”, form DR-14 from the Florida Department of Revenue to obtain an exemption for nonprofit organizations from sales and use taxation. Organizations that obtain the Certificate of Exemption present a copy of the certificate to obtain items or services that would be taxable under Florida statute without paying sales taxes.

Considering taxation of real and personal property, nonprofit organizations are eligible under Florida statutes 196.195, 196.1978, 196.196, 196.197, 196.2001, and 196.2001 to obtain a property tax exemption. If the entire property is used for the intended nonprofit status, the organization may apply for a complete exemption from property taxation. If portions of the property are not actively used for the furtherment of the purpose of the nonprofit organization, those portions are eligible for property taxation. Each calendar year, the property owners of the nonprofit organizations who own the property as of January 1st of that year, must apply with the county property tax appraiser of the county in which the property is located in Florida. The owners of the nonprofit must apply for the exemption with several documents: recorded deed of the property, copy of federal 501(c)(3) forms, and organizational bylaws. Owners of nonprofit organizations must refile annually, or if any additional property is acquired over the calendar year. Tangible personal property is also subject to taxation within the state of Florida. Nonprofit organizations must also file a separate tangible personal property exemption with the county property tax appraiser annually.

FLORIDA ASSISTED LIVING FACILITIES

Florida Statutes 429.02(5) defines an assisted living facility (ALF) as, “any building or buildings, section or distinct part of a building, private home, boarding home, home for the aged, or other residential facility, regardless of whether operated for profit, which through its

ownership or management provides housing, meals, and one or more personal services for a period exceeding 24 hours to one or more adults who are not relatives of the owner or administrator.” ALFs can range in size from one resident to seven hundred residents. ALF facilities in Florida are licensed by the Florida Agency for Health Care Administration. In addition to a standard license to provide services, facilities can apply for three specialty licenses. The three specialty licenses are extended congregate care (ECC), limited nursing services (LNS), and limited mental health (LMH). An ECC license allows the ALF to provide additional nursing services, oftentimes obtained by facilities to allow individuals to remain within the facility as they need additional assistance. An LNS license according to Florida Statutes 429.02(13) provides the ALF the ability to provide additional care such as “the application and care of routine dressings, and care of casts, braces, and splints”. Finally, an LMH license allows the ALF to provide some limited mental health care for residents (Florida Statutes 429.075).

According to the Florida Agency for Health Care Administration, currently 193 of the 3,087 assisted living facilities within the state of Florida are run by nonprofit organizations (Florida Agency for Health Care Administration). However, in 2006 the Florida Legislature passed a bill that transferred the regulation of nonprofit assisted living facilities (ALFs) from chapter 400 of the Florida Statutes, which governs nursing homes and other health care entities, to chapter 429 of the Florida Statutes, which governs assisted care communities. This transfer of regulation prevented nonprofit assisted living facilities from applying for and receiving property tax exemptions on property owned and operated as assisted living facilities under 196.1975(2)(b) of Florida Statutes, as they were no longer defined as nursing homes eligible for exemption. And, the Florida Legislature did not rectify the portion of the Statutes that allow for the exemption of nonprofit assisted living facilities until the 2017 Legislative Session, with implementation of the

change to reinstate the property tax exemption happening on July 1, 2017. This legislative anomaly provides for a natural experiment that allows us to assess the exogenous shock of having their property tax exemptions revoked for a decade and then reinstated to determine the effect, if any, on the operations of Florida's nonprofit assisted living facilities.

DATA & MODEL SPECIFICATION

To answer our research questions, data were obtained from a variety of sources. First, we identified all licensed assisted living facilities (ALFs) functioning within Florida using data from the Florida Agency for Health Care Administration (FAHCA). The FAHCA also maintains detailed records on the owners of each facility, their business model (for-profit or nonprofit), services provided, and any sanctions for violations of regulatory policies. From this source, we obtained data on the population of Florida ALFs that currently or in the past five years have had their licensure status as one of the following: licensed, provisional license, in litigation, provisional litigation, in review, closed, and inactive. Within these data, 3,082 ALFs had their business model identified as either for-profit or nonprofit.

We use these data to conduct two-tailed difference of means testing of the differences between for-profit and nonprofit ALFs in terms of their service structure, nursing services, and sanctions undertaken against them to determine whether any systematic differences exist between the two types of business models. Our null hypothesis underlying this part of analysis is that there are no systematic differences between the two groups of ALFs. Due to the substantial difference in sample size between nonprofit and for-profit ALFs, the t-tests were performed using the Welch's approximation. Because our data comprise the entire population of Florida ALFs, the two-sample Wilcoxon rank-sum (Mann-Whitney) test was also run. In addition, the completion of both the Welch's approximation and the Wilcoxon rank-sum test ensures

robustness of the results. Since the panel was balanced, the number of for-profit ALFs (2,888) and nonprofit ALFs (194) does not change.

Second, once we were able to identify all nonprofit ALFs operating in the state, we also collected their annual financial data for the time period from 2002 to 2018 to allow for observations before, during, and after the legislative changes that occurred in 2006 and 2017 described earlier. Data were collected for each ALF that filed their Return of Organization Exempt from Income Tax (IRS form 990) each year 1998 to 2018, which were obtained from the Core Files from the National Center for Charitable Statistics (NCCS) and directly from the Internal Revenue Service (IRS). These data represent an unbalanced panel with the numbers of observations ranging from a single ALF in 1998 and 2018 to 102 ALFs in 2014 and 103 ALFs in 2016. These data represent the operations and finances pertaining to owners of the population of assisted living facilities in the state of Florida during the time period.¹ This data was combined with parcel level data obtained by the Florida Department of Revenue Property Oversight Division. In this second part of our analysis, we use the IRS form 990 financial data combined with the parcel level property tax data to estimate the impact, if any, of eliminating and then re-granting the exemption from property taxes on the operations of nonprofit assisted living facilities using the econometric model specified in Equation 1.

$$NO_{it} = \alpha + TTP_{it}\beta_1 + TTP_{it}^2\beta_2 + OEV\beta_3 + OEV\beta_4 + F_{it}\beta_5 + C_{it}\beta_6 + \varepsilon_{it} \quad (1)$$

In Equation 1, the operations (NO) of nonprofit assisted living facility i in year t is a function of the total statute 196.1975 exemption value as a percentage of total property tax just

¹ In some cases, a single individual or entity owns more than one ALF; in such cases, the 990 data were only recorded once to avoid overweighting these cases. The property data was combined to reflect the overall burden experienced by the organization in face of the increased property tax liability.

value² for the organization (TTP), the total 196.1975 exemption value squared as a percentage of total property value (TTP²), the other exemption values the property could receive as a percentage of total property value (OEV), the other exemption totals as a percentage of total property tax value (OEV²), the financial position of the nonprofit (F), and organizational characteristics (C) of the nonprofit. Since there are a number of ways in which a nonprofit might respond to the changing tax status, nonprofit operations are operationalized in ten different ways to capture all aspects of an organization's financial reporting: revenues, expenses, assets and liabilities.³ Our null hypothesis is that there is no correlation between the exemption values and the reported operations of Florida ALFs. Commensurately, our alternative hypotheses are that there is a correlation between the exemption values and the reported operations of Florida ALFs in such way that diminishes or reduces the operating activities of the nonprofits but increases overall spending or costs. Due to the way in which each dependent variable is hypothesized, we expect the coefficients pertaining to the exemption value to exhibit positive signs in the models utilizing the variables of total expenses and year-end liabilities, and to exhibit negative signs in the models using fund balance, net income, contributions, gross receipts, total revenue, officer and other employee compensation, and retained earnings. Descriptions of these variables are provided in Table 1.

[INSERT TABLE 1 ABOUT HERE]

It should also be noted that all non-dichotomous variables were standardized by either calculating the natural log values (if the variable does not contain negative values) or calculating

² Just value in the state of Florida is defined as the perceived market value of the property. Annual adjustments are made to the just value by the County Property Tax Appraiser.

³ Regression analysis was conducted using year-end assets as one dependent variable measuring nonprofit operations, but the model failed to reach statistical significance; therefore, the results of analysis on assets are not reported but are available from the authors upon request.

values as a percent of total expenses. These transformations help to achieve normality in the variable distributions, with the exception of clustering of values at zero.⁴ In addition, all of our model estimations include state, county, and year fixed effects to account for unobserved factors not included in our model specifications, the results of which are available from the authors by request.⁵

EMPIRICAL RESULTS

Descriptive Statistics

Descriptive Statistics for the data obtained from the Florida Agency for Health Care Administration (FAHCA) are presented in Table 2, which includes information pertaining to capacity, sanctions and fines, activities and services provided to residents, year the current owner possessed the business, and the type of nursing services provided to residents. As can be seen from the table, the average number of beds within ALFs in Florida is 34.22. ALFs in Florida are tracked using four types of data regarding issues with quality: number of substantiated complaints by either residents or citizens, final sanctions after inspection, total number of deficiencies, and monetary fine amounts. As seen in Table 2, the average fine amount across all ALFs in Florida is \$1,034.23. The availability of nursing depends on the facility, ranging from no nursing to 24 hour a day nursing staff on site. In addition, ALFs may hire nursing staff as employees or contract-out to third-party providers. As seen in Table 2, about 25 percent of ALFs

⁴ We did not exclude observations reporting zero or negative values, because we believe these observations reveal important information about the financial operations of the ALFs and how such operations might be affected by the changing property tax exemption. In doing so, however, there are a number of observations of our dependent variables that are clustered at or near zero, which somewhat diminishes the goodness-of-fit of our regression models. This is a limitation of our study.

⁵ States and counties outside of Florida are observed in the data, because the IRS 990 form reports the owner address, which may be different from the physical address of the ALF. We control for the state and county of the owner's reported address, because the location of an owner's domicile will reflect the owner's tax liability locally, which we believe might influence reported operations.

in Florida maintain no nursing. In addition, ALFs in Florida may have more than one type of nursing on-site to cater to certain sections of residents that need additional nursing capabilities. On average, 26.22 percent of facilities have some nursing staff as employees of the organization. Finally, activities offered to residents are tracked, as well as special programs and services. Types of activities include dancing, exercise classes, games/cards, gardening, music programs, social events/outings, theater and movies, shopping, yoga, cooking classes, arts and crafts, and other types. The types of special programs and services include audiology, massage therapy, memory care, occupational therapy, pet therapy, physical therapy, speech therapy, water therapy, and other types of special programs. Table 2 shows that, on average, ALFs in Florida have 1.31 special programs and services and 5.74 activities available to residents.

[INSERT TABLE 2 ABOUT HERE]

Descriptive statistics for the IRS form 990 financial data are presented in Table 3. Variables for which there are no observed negative values were transformed to natural log dollar values, and those observations with dollar values of zero were retained as zero natural log values. Variables with observations of negative values were standardized as a percentage of total expenses for purpose of consistency and comparability because natural logs cannot be calculated for negative values. As can be seen from the table, the mean natural log value of total expenses is \$15.51 (\$5,451,820 in actual dollars), which ranges from a minimum of zero expenses reported to a maximum of \$20.81 natural log dollars or \$1,086,578,929 actual dollars. On average, the owners of Florida ALFs maintain fund balances that are 59.18 percent of total expenses and earn positive annual returns with net income and retained earnings averaging 2.36 percent and 14.42 percent, respectively, of total expenses. This positive return average is reiterated with the mean value of total revenue to total expenses equaling more than 100 percent (i.e. 102.76 percent). Of

course, there is considerable variation in these measures as some ALF owners report much larger fund balances and annual returns and others reporting reserve draw-downs and/or financial losses indicated by negative values of these variables. As for the remainder of dependent variables representing nonprofit operations, ALF owners reported, on average, liabilities at year-end of \$15.19 natural log (\$3,962,596 actual) dollars, gross receipts of \$15.71 natural log (\$6,636,000 actual) dollars, officer compensation of \$6.34 natural log (\$566 actual) dollars, and compensation of other employees of \$13.83 natural log (\$1,017,257 actual) dollars.

[INSERT TABLE 3 ABOUT HERE]

Our independent variables of interest are the TTP and OEV. As can be seen by table 3, the average percentage of the Statute 196.1975 exemption as a percentage of total property value (TTP) for the organization is 10.54 percent. This varies from 0.00 percent to 100.00 percent. This trend provides for a natural experiment to assess the punctuated change in property tax exemption on nonprofit operations, as there were periods of time during the panel where the value of the exemption was 100 percent of the property's market value. Considering other exemption values (OEV) that were available to the ALFs within the data set, the average percentage of other exemptions was 11.07 percent, with a standard deviation of 30.06 percent. In addition to a number of organizational control variables, we also control for other factors that might influence nonprofit operations including the relatively large expense of payroll taxes (\$79,126 actual dollars on average) and liability of the organization's mortgage payable at year-end (\$1,586 actual dollars on average). The ALF owners received their IRS determination letter granting exemption from federal income taxes as recently as three years ago and as long ago as 77 years, so there is also considerable in the age of these ALF nonprofits. The table also shows that the majority of these organizations are classified as human service (54.42 percent), housing

(14.05 percent), or mental health (4.6 percent) agencies. Finally, the table shows that 23.72 percent of these nonprofits receive a substantial portion (as defined by the IRS) of support from a governmental unit or the general public, while 52.55 percent maintain their federal income tax exemption status by having less than or equal to one-third of their income from investments or unrelated business activities and more than one-third of their income either from donated sources or related to the organizational purpose.

Difference of Means Testing Results

Table 4 provides the analytic results of our difference of means testing. While our null hypotheses for t-testing were that there are no systematic differences between the operations of for-profit and nonprofit ALFs in Florida, Table 4 actually shows a number of statistically significant differences between the two groups. In terms of institutional capacity, as measured through the number of beds contained in the facility, nonprofit ALFs had a statistically significantly higher number of beds on average than their for-profit counterparts. However, this result is not too surprising given the findings of Ellen et al (2005) who also found differences in capacity across the for-profit and nonprofit housing sectors. However, our analysis stands in contrast in that it is the nonprofit ALFs that maintain greater service capacity compared to their for-profit counterparts.

[INSERT TABLE 4 ABOUT HERE]

Turning to the issue of service quality, three of the four measures were statistically significant in differences of means between nonprofit and for-profit ALFs: number of final sanctions, fine amount and total number of delinquencies. In each of these cases, the mean was

higher for the for-profit ALFs than the nonprofit ALFs. Initially, we thought perhaps that increased bed size would lead to a lack of quality, but this was not found from these results. In addition, the nonprofit ALFs did not let quality slip in the face of having an additional expenditure of a property tax bill. These findings suggest that, on average, nonprofit ALFs are providing a better quality of care than their for-profit counterparts in Florida.

We also expected that the nonprofit ALFs would cut soft services, such as special programs and activities, to residents as a way to reduce expenses under the additional burden of a property tax bill. However, our findings show that nonprofit ALFs in Florida provide statistically significantly more special programs and services, as well as more activities to their residents in comparison to their for-profit peers. As seen in Table 4, on average, for-profit ALFs provide 5.66 activities to their residents while nonprofit ALFs provide 6.97 activities.

We also thought perhaps the additional expense of a property tax bill might lead to greater ownership turnover for nonprofit ALFs. In contrast, we find a statistically significant results that nonprofit ALFs in Florida have been owned by their current owners for longer periods of time than for-profit ALFs. Table 4 shows the average year the current owner obtained the business for nonprofit ALFs is 2003, while the average year for for-profit ALFs is 2009.

Turning to the issue of staffing through nurses, for-profit ALFs are statistically significantly more likely to not have any nursing staff available to residents. They are also more likely to have a third-party provider providing part-time nursing to the residents or to employ third-party nursing providers. In contrast, nonprofit ALFs, on average, rely on in-house nursing staff, both 24 hours and on a part-time basis. Therefore, Table 4 highlights that these nonprofits are able to rely on payroll staff to provide nursing care to their patients even after the impact of removing the property tax exemption. Overall, we are able to conclude from this part of our

analysis that there are statistically significant differences between nonprofit and for-profit ALFs in Florida in terms of service structure, nursing services, and sanctions.

Fixed Effects Regression Results

Table 5 provides the results of ten different fixed effects regression estimates. The dependent variable for each model is unique and signified by the column headings. Aside from the dependent variables, each model estimation uses the exact same specification. All dollar values were inflated-adjusted to 2018 constant dollars, and robust standard errors were used throughout to correct for heteroskedasticity. All ten models display F values that are statistically significant at the 99 percent confidence level, and the models explain between 4.34 percent and 44.86 percent of the variation within ALF operations over time as exhibited by the Within R-Square statistics. Although not shown, all the regression models include state, county, and year fixed effects, which account for a considerable amount of variation in unobserved factors over time. It should also be noted that pairwise correlations among all independent variables were examined to ensure multicollinearity is not biasing the calculation of the test statistics and our commensurate decisions to reject or fail to reject the null hypotheses of no correlation between our dependent and independent variables; all correlations are below the threshold of 0.70.

[INSERT TABLE 5 ABOUT HERE]

To cut to the chase, Table 5 shows that eliminating the property tax exemption had essentially no effect on the operations of Florida ALFs. In all of the regression model estimations, the Statute 196.1975 exemption value (TTP) fails to reach statistical significance at any conventional levels with the exception of the model specification utilizing total expenses as the dependent variable. This is true for both the percentage measure and the squared percentage

measure. In this one particular model, the TTP variable is negative as expected and reaches statistical significance at the 90 percent confidence level suggesting a decrease in total expenses as the percentage of the TTP increases, suggesting total expenses decreased during the duration of time where the exemption was available to the nonprofit ALFs. Due to the marginal level of significance, however, we are cautious to not overstate even this conclusion. The percentage of the other exemptions (OEV) in both percentage and squared percentage terms was not statistically significant in any of the ten models.

Aside from our primary focus, the regression results illustrate some additional findings that are noteworthy. First, payroll taxes and mortgage liabilities tend to influence the operations of these Florida nonprofits as one or both of these variables are often statistically significant at the 90 percent confidence level or above. Organizational age appears to matter for contributions with the ALFs exhibiting declining contributions as percentages of total expenses declining as age increases, suggesting newer ALFs might be more appealing to donors or perhaps that these organizations work harder when they are newer to solicit funds. Unsurprisingly, ALFs categorized as hospitals exhibit greater amounts of gross receipts than ALFs without a hospital NTEE classification. And, ALFs in the NTEE categories of human services, housing, and health exhibit systematically lower levels of employee compensation. Finally, the reason ALFs are granted federal income tax exemptions is the most systematic predictor of operations for non-501c3 nonprofits, as the variable is statistically significant at the 99 percent confidence level or above for all regression models (except when retained earnings is the dependent variable) and the magnitudes of the coefficients are among the largest by comparison.

CONCLUSION

This paper was motivated by a statewide legislative change in Florida that affected assisted living facilities (ALFs) by inadvertently removing the property tax exemption for those operated by nonprofit organizations. To fill in a void in the literature on the impact of property tax exemptions on nonprofit organizations, we posed two research questions: 1) Are there systematic differences between Florida's for-profit- and nonprofit-designated assisted living facilities in terms of operations and service provision? And 2) What was the impact, if any, of losing and re-gaining their property tax exemptions on the operational cost structure and service provision of Florida's nonprofit assisted living facilities? We used data from the Florida Agency for Health Care Administration (FAHCA) to conduct difference of means testing for-profit versus nonprofit ALFs, as well as annual financial data (2002-2018) of each ALF owners' IRS form 990 filing from the NCCS Core Files and the IRS to conduct regression analysis using ten different dependent variables measuring nonprofit ALF operations. Overall, we found that nonprofit ALFs have greater legitimacy in service delivery than for-profits, as nonprofit ALFs have greater service capacity, quality, and variety than for-profit ALFs in Florida, and nonprofit ALFs have less ownership turnover and more nursing staff for residents. However, eliminating the property tax exemption for nonprofit ALFs in Florida had essentially no effect on their operations, with the exception of marginal evidence of reduced expenses.

There is one primary limitations to our analysis presented in this paper. A challenge for this analysis is the clustering of observations at or near zero dollar values for some of the dependent variables utilized to measure ALF operations, which effectively limits the variation observed for an individual ALF over time and also creates a bi-modal distribution that inhibits the goodness-of-fit of the regression models. Going forward, we plan to work to improve the fit of our econometric models.

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Table 1: Variable Names and Definitions

Variable Name	Description
<i>Dependent Variables</i>	
Total Expenses (Ln)	Natural log dollar value of total expenses
Fund Balance (%)	Net assets or fund balance at fiscal year-end as a percentage of total expenses
Year-End Liabilities (Ln)	Natural log dollar value of liabilities at fiscal year-end
Net Income (%)	Net income or loss for the fiscal year as a percentage of total expenses
Contributions (%)	Total contributions, gifts, and grants as a percentage of total expenses
Gross Receipts (Ln)	Calculated natural log dollar value of total gross receipts
Total Revenue (%)	Total revenue as a percentage of total expenses
Officer Compensation (Ln)	Natural log dollar value of compensation of board officers
Other Salaries (Ln)	Natural log dollar value of salaries and wages of non-officer employees
Retained Earnings (%)	Retained earnings at beginning of fiscal year as a percentage of total expenses
<i>Independent Variables</i>	
Statute 196.1975 Exemption Value (%)	Total exemption amount provided under 196.1975 as a percentage of total property just value
Other Exemption Value (%)	Total dollar amount of other exemptions available to the parcel (for example homestead exemption) as a percentage of total property tax just value for that year
Payroll Tax Expenses (Ln)	Natural log dollar value of payroll tax expenses
Year-End Mortgage Payable (Ln)	Natural log dollar value of mortgages and other notes payable at fiscal year-end
Organizational Age	Number of years between 2018 and the issue year of IRS determination letter granting federal income tax exemption
UBI > \$1,000 or More	Dichotomous variable coded 1 if unrelated business gross income is \$1,000 or more during the fiscal year, and 0 otherwise

Table 1 Contd.: Variable Names and Definitions

Variable Name	Description
<i>Organizational Control Variables</i>	
<i>Reason for Exempt Status</i>	
Non-501c3 Organization	Dichotomous variable coded 1 if reason and type of exempt status is other than 501c3, and 0 otherwise
Private Foundation	Dichotomous variable coded 1 if reason and type of exempt status is private operating foundation, and 0 otherwise
Substantial Govt. or Public Support	Dichotomous variable coded 1 if reason and type of exempt status is due to a substantial portion of support from a governmental unit or the general public, and 0 otherwise
Income \leq 1/3 UBI & $>$ 1/3 Donated	Dichotomous variable coded 1 if reason and type of exempt status is due to organizational income being \leq 1/3 investment or unrelated business and $>$ 1/3 donated or related to purpose, and 0 otherwise
509a3 Supporting Organization	Dichotomous variable coded 1 if reason and type of exempt status is due to organization being a 509a3 supporting organization for benefit and in conjunction with another exempt organization, and 0 otherwise
<i>NTEE Group</i>	
Human Services	Dichotomous variable coded 1 if National Taxonomy of Exempt Entities (NTEE) category is human services, and 0 otherwise
Housing	Dichotomous variable coded 1 if National Taxonomy of Exempt Entities (NTEE) category is housing, and 0 otherwise
Health	Dichotomous variable coded 1 if National Taxonomy of Exempt Entities (NTEE) category is health, and 0 otherwise
Mental Services	Dichotomous variable coded 1 if National Taxonomy of Exempt Entities (NTEE) category is mental health services, and 0 otherwise
Hospitals	Dichotomous variable coded 1 if National Taxonomy of Exempt Entities (NTEE) category is hospitals, and 0 otherwise
<i>Other</i>	
No 990 Filing Requirement	Dichotomous variable coded 1 if organization is not required to file form 990 with the IRS but filed anyway, and 0 otherwise
Subordinate in Group Ruling	Dichotomous variable coded 1 if organizational affiliation is subordinate in a group filing, and 0 otherwise

Table 2: Descriptive Statistics for Difference of Means Testing

Variables	Mean	Standard Deviation	Minimum	Maximum
Number of Beds in Facility	34.2154	47.2902	3	350
Number of Substantiated Complaints	0.9835	1.9933	0	21
Number of Final Sanctions	1.0474	1.6217	0	20
Fine Amount (Dollars)	\$1,034.23	\$3,230.42	\$0.00	\$71,000.00
Total Number of Deficiencies	10.5548	10.4026	0	95
Number of Special Programs and Services	1.3092	1.8549	0	9
Number of Activities	5.7424	3.2067	0	12
Year Current Owner Started ALF	2009	7	1977	2019
Nursing 3rd Party 24 Hour	0.0792	0.2700	0	1
Nursing 3rd Party Part Time	0.1483	0.3554	0	1
Nursing In House 24 Hour	0.2735	0.4458	0	1
Nursing In House Part Time	0.1489	0.3561	0	1
No Nursing	0.2531	0.4348	0	1
Part Time Nursing	0.1836	0.3872	0	1
Full Time Nursing	0.2282	0.4197	0	1
Nursing 3rd Party	0.1423	0.3494	0	1
Nursing In House	0.2622	0.4399	0	1

Table 3: Descriptive Statistics for Regression Models

Variables	Mean	Standard Deviation	Minimum	Maximum
<i>Dependent Variables</i>				
Total Expenses (Ln)	\$15.51	\$2.68	\$0.00	\$20.81
Fund Balance (%)	59.18%	311.95%	-416.09%	10216.37%
Year-End Liabilities (Ln)	\$15.19	\$3.99	\$0.00	\$20.99
Net Income (%)	2.36%	27.77%	-100.00%	554.26%
Contributions (%)	15.00%	36.09%	-0.93%	646.80%
Gross Receipts (Ln)	\$15.71	\$2.41	\$0.00	\$21.56
Total Revenue (%)	102.76%	28.78%	0.00%	654.26%
Officer Compensation (Ln)	\$6.34	\$6.26	\$0.00	\$15.85
Other Salaries (Ln)	\$13.83	\$4.36	\$0.00	\$20.19
Retained Earnings (%)	13.42%	85.69%	-77.23%	968.72%
<i>Independent Variables</i>				
Statute 196.1975 Exemption (%)	10.54%	27.78%	0.00%	100.00%
Other Exemption Value (%)	11.07%	30.60%	0.00%	100.00%
Payroll Tax Expenses (Ln)	\$11.28	\$4.12	\$0.00	\$17.64
Year-End Mortgage Payable (Ln)	\$7.37	\$7.35	\$0.00	\$20.05
Organizational Age	35.65	16.89	3	77
UBI > \$1,000 or More	0.0900	0.2862	0	1
<i>Organizational Control Variables</i>				
<i>Reason for Exempt Status</i>				
Non-501c3 Organization	0.0086	0.0914	0	1
Private Foundation	0.0100	0.0985	0	1
Substantial Govt. or Public Support	0.2372	0.4253	0	1
Income <=1/3 UBI & >1/3 Donated	0.5255	0.4992	0	1
509a3 Supporting Organization	0.0240	0.1532	0	1
<i>NTEE Group</i>				
Human Services	0.5442	0.4981	0	1
Housing	0.1405	0.3468	0	1
Health	0.0780	0.2673	0	1
Mental Services	0.0460	0.2096	0	1
Hospitals	0.0043	0.0647	0	1
<i>Other</i>				
No 990 Filing Requirement	0.0086	0.0914	0	1
Subordinate in Group Ruling	0.0536	0.2252	0	1

Table 4: Two-Tailed Difference of Means Testing

Variable	Mean of For Profit ALF	N of For-Profit ALF	Mean of Not-for-Profit ALF	N of Not-for-Profit ALF	t	z
Number of Beds in Facility	32.48	2,888	60.08	194	-7.98	-10.92
Number of Substantiated Complaints	0.99	2,888	0.90	194	0.65	0.59
Number of Final Sanctions	1.07	2,888	0.72	194	3.6404***	3.537***
Fine Amount (Dollars)	1049.10	2,888	812.80	194	1.20	2.982***
Total Number of Deficiencies	10.67	2,888	8.89	194	2.5564**	2.422**
Number of Special Programs and Services	1.24	2,888	2.29	194	-5.91	-6.04
Number of Activities	5.66	2,888	6.97	194	-5.42	-6.21
Year Current Owner Started ALF	2009.83	2,888	2003.81	194	7.4796***	7.087***
Nursing 3rd Party 24 Hour	0.08	2,888	0.05	194	1.76	1.47
Nursing 3rd Party Part Time	0.15	2,888	0.10	194	2.3971**	2.038**
Nursing In House 24 Hour	0.26	2,888	0.49	194	-6.40	-7.14
Nursing In House Part Time	0.14	2,888	0.29	194	-4.63	-5.86
No Nursing	0.26	2,888	0.08	194	8.4938***	5.645***
Part Time Nursing	0.27	2,888	0.36	194	-2.42	-2.58
Full Time Nursing	0.34	2,888	0.54	194	-5.57	-5.82
Nursing 3rd Party	0.22	2,888	0.14	194	3.1964***	2.726***
Nursing In House	0.38	2,888	0.74	194	-10.91	-9.89
** p < 0.05, *** p < 0.01						
Note: All t-tests were conducted using Welch's approximation because of the significant imbalance in the numbers of observations between groups. To ensure robustness of the results, all z-tests were conducted using the two-sample Wilcoxon rank-sum (Mann-Whitney) test for purposes of comparison to be sure the normality assumption of the t-test with Welch's approximation is appropriate for the data.						

Table 5: Fixed Effects Regression Results

Variables	Total Expenses (Ln)	Fund Balance (%)	Year-End Liabilities (Ln)	Net Income (%)	Contributions (%)	Gross Receipts (Ln)	Total Revenue (%)	Officer Compensation (Ln)	Other Salaries (Ln)	Retained Earnings (%)
<i>Independent Variables</i>										
Statute 196.1975 Exemption (%)	-0.0263*	0.1449	-0.0082	-0.1692	-0.0426	-0.0068	-0.1692	-0.0189	0.0006	-0.1375
Statute 196.1975 Exemption ² (%)	0.0004*	0.0015	0.0001	0.0018	0.0006	0.0001	0.0018	0.0002	0.0001	0.0013
Other Exemption Value (%)	0.0029	0.9906	0.0066	0.0565	-0.0924	-0.0011	0.0565	0.0365	0.0033	-0.0085
Other Exemption Value ² (%)	-0.0000	-0.0119	-0.0000	0.0008	0.0008	0.0000	-0.0008	-0.0004	0.0000	0.0007
Payroll Tax Expenses (Ln)	0.1936**	-0.5018	0.0295	-0.3276	-0.6972	0.0679*	-0.3276	0.3184***	0.6927***	0.5172
Year-End Mortgage Payable (Ln)	0.0066	-0.4777	0.0461***	-0.2694	-0.2600**	-0.0018	-0.2694	-0.0296	0.0223	-0.0549
Organizational Age	0.0098	-0.3128	-0.0043	0.0878	-0.2731*	0.0026	0.0878	-0.0409	-0.0628	-0.5183
UBI > \$1,000 or More	-0.8606	4.4941	-0.4402	0.4440	-1.6358	0.0171	0.4440	3.3133	0.1016	-0.8600
<i>Organizational Control Variables</i>										
<i>Reason for Exempt Status</i>										
Non-501c3 Organization	-2.7994***	164.1497***	-10.4944***	74.8757***	158.8726***	-1.8230***	74.8757***	8.3674***	-5.1820***	-1.2286
Private Foundation	-1.0847*	-23.3800	-0.2856	0.4985	-9.5520***	-0.0753	0.4985	4.9164***	-0.4028	-0.1474
Substantial Govt. or Public Support	-0.2426	65.6549	-1.3150	6.5797	-21.8929*	-0.4242	6.5797	-0.7816	2.0338	-33.3601
Income <=1/3 UBI & >1/3 Donated	-0.1878	-12.2847	-0.0965	2.2104	-1.9855	-0.1058	2.2104	0.5258	-0.3310	-1.4511
509a3 Supporting Organization	0.4112	35.6901	0.1329	-4.4282	-7.5452*	-0.1681	-4.4292	1.4166	0.0339	-1.3928
<i>NTEE Group</i>										
Human Services	-0.1684	-99.3193	0.4255	-5.7876	-6.3177	0.6853	-5.7876	1.4807	-1.5828***	-69.7231
Housing	-0.1139	-126.8438	1.0583	-11.4571	-12.6584	0.9518	-11.4571	2.6221*	-1.7444**	-103.5801
Health	-0.6134**	-82.1433	0.5642	-14.7824	-4.8563	0.3451	-14.7824	1.6059	-1.9918***	-68.7800
Mental Services	-0.6867	-56.8145	-0.7285	-7.7529	4.2601	-0.1004	-7.7529	1.3460	-1.3716	-73.2358
Hospitals	0.5851**	-38.6976	0.5591	13.5293*	-7.0087	0.8331**	13.5293*	0.4712	-0.0116	-38.1579
<i>Other</i>										
No 990 Filing Requirement	0.2784	39.0431*	-0.2216	10.4392	1.8904	1.3196	10.4392	-0.5432	0.6270	16.0476
Subordinate in Group Ruling	0.3029	52.9014***	-0.3110	3.3355	5.3389	0.1876	3.3356	-0.1571	0.8624	6.5529
<i>Constant</i>	12.7064***	202.4187**	13.3559***	29.4344*	75.241***	13.9429***	129.4344***	1.0548	8.0701***	112.8299
<i>N</i>	1,524	1,498	1,524	1,498	1,498	1,524	1,498	1,524	1,524	1,493
<i>F</i>	48.29***	69.07***	537.15***	82.98***	225.98***	62.31***	82.98***	100.50***	44.27***	14.06***

<i>Within R-Square</i>	0.2735	0.2114	0.1199	0.0434	0.0707	0.1988	0.0434	0.1165	0.4486	0.0623
* p<0.10; ** p<0.05; *** p<0.01										
Note: Although not shown, all models include fixed effects for state, county, and year. All dollar values were -inflation-adjusted to 2018 constant dollars using the Consumer Price Index (CPI). Robust standard errors were used for each estimation.										