**Proposed OPM Regulations for the US Government's Combined Federal Campaign**
**5 CFR 950**

**RIN 3206-AM68**

**Comments Offered by Workplace Giving Alliance Federations**

---

*The Workplace Giving Alliance includes the following federations that participate in the Combined Federal Campaign and share administrative staff, providing services to over 500 not-for-profit organizations.*

Animal Welfare Fund, Inc.
Arts Federation, Inc.
Child Aid International, Inc.
Child Aid USA, Inc.
Children and Youth Services, Inc.
Health & Human Services Charities of America, Inc.
Human & Civil Rights Organizations of America, Inc.
Jewish Aid Worldwide: America, Israel and Beyond, Inc.
Mental Health and Addiction Network, Inc.
Peace and Reconciliation Charities, Inc.
Village by Village, Inc.

---

We appreciate this opportunity to comment on the proposed new regulations for the Combined Federal Campaign, as published by the Office of Personnel Management on April 8, 2013.

Before proceeding to our comments, we offer the following preliminary points:

1. OPM has not yet released the comments submitted to date by other organizations and individuals. Many of those offering comments have published them, however. On occasion, we will refer to these other comments because they articulate well the concerns we have on particular topics.

2. Our office has been gathering data from PCFOs across the country regarding donor pledges going back several years. We have released reports describing how CFC donors pledged to national and international organizations in the 2009, 2010, and 2011 campaigns. We have also gathered data regarding 2012 CFC pledges, though we have not yet released a report thereon. To the degree possible, our comments will be informed by this data which we are happy to continue to share with OPM.

3. Our office has also released two reports on CFC operations which we believe can assist your deliberations on possible changes to the CFC. The first, *Federation Fees*, was released in January 2013. The second, *Helping a Million Donors Choose: Online Search in the CFC*, was released in May 2013. While we forwarded these reports to your office at the time of their release, we include them in these comments, as attachments, and will be referring to them below.



125 Washington Street, Suite 201, Salem, MA 01970 Tel: 978-594-0404 Fax: 978-236-7272
www.wg-alliance.org

The draft regulations propose a number of substantive changes to the CFC. We support some of these and have serious reservations regarding others. We begin with three proposed regulatory changes that we especially support:

1. Easing the requirement that small organizations provide an audit
2. Barring federations from withholding their own fees from CFC funds they are distributing to their members
3. Consolidating back-office functions into one or more Central Campaign Administrators

We then turn to aspects of the draft regulations about which we have concerns:

4. Creating a charity application fee
5. Expanding universal giving without adequate preparation
6. Eliminating the print directory and some traditional giving methods
7. Eliminating the PCFO structure
8. Preserving the current administrative and fundraising rate formula
9. Instituting changes with insufficient preparation

Finally, in Attachment A, we draw to your attention passages of the regulations where there may be drafting errors.

## Comment 1: Easing the requirement that small organizations provide an audit

**We support this effort to ease the paperwork burden on small charities but express our concern that OPM be sensitive to the CFC's long-standing role as a force for transparency and accountability in the not for profit field.**

OPM proposes to ease the requirement that charities obtain and provide a copy of their most recent GAAS GAAP audit. Currently, all national and international applicants must provide a copy of such an audit. Local applicants with revenue under $100,000 are released from this obligation.

The proposed regulations eliminate the distinction between national/international organizations and local organizations regarding audits. Under the proposed rule, no applicant with revenue below $250,000 – whether the group is national, international or local – will be required to provide a copy of a GAAS GAAP audit. However, all applicants with revenue between $100,000 and $250,000 will be required to provide a copy of a CPA review. All applicants with revenue below $100,000 will be completely released from any audit/review requirement.

While we recognize the value of easing the paperwork burden on smaller organizations, we note that the CFC 50 Commission urged a change of this kind but offered its recommendation regarding local organizations only. We support the change presented by OPM, but we hope that OPM will be conservative in implementing any further changes that could substantially diminish the CFC's long-standing role as a program that encourages charity transparency and accountability.

## Comment 2: Barring federations from withholding their own fees from CFC funds they are distributing to their members

**We support the proposed OPM rule which will have the desirable affect of requiring federations to more fully disclose the fees they charge their members.**

As noted, our office released a report in January 2013 which published language used by national CFC federations to explain their fees. We include this report, *Federation Fees*, as Attachment B.

As we wrote in January:

> At the national level, the vast majority of charities enter the CFC by applying through a federation. Yet, the costs of these federations and the fees that they charge are generally not understood.
>
> The Workplace Giving Alliance has compiled information on the national federations that participated in the 2012 CFC. We have sought to answer a basic question: Can a charity, seeking to join a federation, find the information it will need to compare services and fees? For the most part, we believe the answer to be No.

We believe that OPM has proposed a regulation that will resolve this problem. Because they will not be able to withhold their fees from CFC funds, federations will be required, in some manner, to invoice their members. We support this change.

## Comment 3: Consolidating back-office functions into one or more Central Campaign Administrators

**We support the proposed consolidation of back-office functions.**

OPM proposes to create one or more Central Campaign Administrators to streamline the back-office functions of the CFC. We support this change.

The current system of administering the CFC creates an enormous burden of paperwork – for local administrators, charities and federations. PCFOs often report in different formats, and a substantial amount of time is required to eliminate errors in pledge reports and the transfer of donations.

Clearly, by consolidating administrative activity, the CFC will ease the burden of paperwork on all involved, reduce the chance of error, and speed up the transfer of information and funds.

## Comment 4: Creating a charity application fee

**We oppose the institution of a charity application fee due to the negative impact it will have on charity participation and the unnecessary complications it will introduce to the administration of the CFC.**

OPM has proposed that the CFC institute an application fee. OPM has provided little information regarding this fee other than 1) the amount would be announced in the fall for the following year's CFC, 2) the fee would be due by the application deadline, and 3) the fee would be non-refundable.

On May 7, 2013, Medical Research Charities, a national CFC federation, submitted its comment to OPM. Regarding the institution of an application fee, MRC wrote:

> This proposal is fundamentally flawed and disturbingly vague. No estimated costs or projections are provided for training, administering, marketing and travel under the proposed new system. Nor are any fee ranges disclosed. A "one size fits all" fee would almost certainly be high enough to dissuade smaller organizations currently in the campaign from reapplying. And even a graduated fee tied to historical pledge results, the more equitable manner of distributing the costs, would still be a powerful disincentive to an organization with no past participation in the campaign or that has experienced wide swings in pledges from year to year as many organizations do.

On May 21, 2013, ten national organizations including several national CFC federations submitted their comment to OPM. America's Charities, Christian Service Charities, Community Health Charities, EarthShare, Global Impact, Human Service Charities of America, Independent Sector, National Black United Fund, United Way, and YMCA wrote:

> No details have been provided on the proposed upfront and non-refundable fees for charities to participate in the campaign, including the amount of the fees, how will they will be assessed and adjusted each year, and who will collect and process them. With the added time and expense involved in invoicing and collecting the upfront fees, we are concerned this will increase administrative costs of the campaign, make those costs opaque to the donor, and pass the burden on to the charities. Our member charities are also concerned that the upfront fee will increase their cost of fundraising.

We understand that PCFO administrators have offered their own comments, indicating that many local charities will likely decline to participate in the CFC if a non-refundable upfront application fee is charged. We share the concerns that are being widely articulated.

We have looked at actual pledge results for 2009, 2010, 2011 and 2012, and the data show that the imposition of a fee of this kind is likely to substantially reduce the number of organizations participating in the campaign. We summarize our conclusions below and offer as Attachment C additional analysis.

To state the obvious, charities enter the CFC to raise money. They seek something more than merely covering any CFC-related costs; they are looking for funds to support their own programs. Whatever fee OPM sets, the first and most likely result will be that groups raising that amount of money or less will decline to participate.

Our research shows that the amount raised by individual charities often varies substantially one year to the next. We refer to this phenomenon as *pledge volatility*. We looked at the results for national and international organizations in the 2009, 2010, and 2011 campaigns. Here is our key finding with regard to volatility:

> **Almost half of the participating charities saw their results rise or fall by 25 percent or more each year. About one in five saw their results rise or fall by *50* percent each year.**

The lengthy nature of the campaign calendar will only worsen the problem. The proposed regulations will require charities to pay the application fee *twice* before they can learn whether they have raised enough in the first year to justify the expense.

Knowing that their results can and do vary, charities will naturally build in a cushion. If the government sets the fee at, say, $600, charities that have received that much – indeed, many charities that have received more than that amount – will decline to participate in the program. (Here and elsewhere, we are referring to a charity's actual receipts from the CFC and not to the somewhat higher reported pledge figure.)

The government is asking charities to place a bet: Give us money now, and we will tell you a couple of years down the road whether donors paid you back. We expect that many charities will decline the "offer."

We add one further note of caution. OPM has stated in the proposed regulations that the fee will be used to cover the costs of running the CFC in the following year. (OPM is not clear if these costs will include the expenses associated with OPM's own Office of CFC.) In effect, OPM will place the CFC in the position of needing to "sell applications" in order to meet its financial target. If, for instance, OPM sets the annual operations budget at $14 million, then the CFC will be pressed to raise at least that amount through application fees. If there is a shortfall, then there will be less money available to run the CFC the next year.

OPM's proposed regulations state that money raised through the application fee that exceeds the annual budget will be rolled over to the next CFC cycle. OPM is silent on the equally plausible scenario: There is not enough money to meet the budget target.

The concerns that we and others are expressing lead to one over-arching question: Why is this change needed? Some argue that donors will like to hear that all of their donations are reaching the charities. Donors generally understand that it costs money to raise money, however. So, we ask, will this change really enhance transparency?

OPM is about to require that federations bill for their services. Local CFC administrators have effectively been doing this for half a century. If OPM wishes charities to pay for the CFC, that can be arranged by an after-the-fact assessment on actual donations.

## Comment 5: Expanding universal giving without adequate preparation

**We support universal giving but are concerned that the complex implications of this change for the CFC have not been fully considered.**

OPM proposes to make it possible for CFC donors to support local charities regardless of where those charities are. A donor in Boston, for example, will be able to pledge support to a charity in San Diego or Denver or Atlanta or elsewhere.

Piloted in three CFC zones in 2012, a full universal giving system will mean that donors across the country and overseas will have access to the entire list of national, international and local charities. In the 2012 CFC, there were over 24,000 such groups – almost 90 percent of them local.

We support “universal giving” as it is known and as it is mentioned in the section by section analysis of the draft regulations, but we are concerned that OPM has not fully considered the implications for the CFC of this important change.

The draft regulations state that the government will continue the current practice of rotating the three main sections of the charity list: national, international, and local. The CFC will also use a “random selection process” to determine the order of federations and independent charities within each main section.

In effect, while OPM proposes to eliminate the printed charity directory, the regulations assume that it will still be important to organize the charities in sections and to rotate these sections as the campaign has been doing for years. We very much question whether this assumption makes sense in light of the number of charities to be listed: 24,000. The current print directory displays 35 – 40 groups per page. Does OPM intend to publish a PDF directory with 600-700 pages?

The problem gets worse when one considers the frequency with which local charities in different parts of the country share the same or similar name. How many United Way chapters are there and will their names make it clear if a chapter is actually close to a donor’s home? How many Red Cross chapters are there?

As we describe in our online search report, the vast number of local groups can present a sizeable problem when a donor is looking for a particular charity. There are fixes, of course. The CFC can try to label charities as being local to a particular zone. But OPM proposes to reduce the number of administrative zones which will make it more difficult to assign the word “local” to any particular charity.

We support universal giving. We believe, however, that the CFC will fundamentally change once universal giving is fully adopted. Publishing a list involving tens of thousands of charities is challenging. Helping donors search that list is even more so.

To function effectively in this new digital world, the CFC will require a national database with a robust search function. Campaign administrators will need to establish data fields that genuinely reflect donor interests. And all of the required changes will need to be handled so as to preserve the equity among charities that is a hallmark of the program.

We submit as Attachment D our report on online search in the CFC. As we say in the report: If the CFC handles online search effectively, “much else will go well. But, if the CFC handles online search poorly, the campaign and those who benefit from the generosity of federal employees will suffer.”

## Comment 6: Eliminating the print directory and some traditional giving methods

**We oppose the elimination of the print directory and traditional methods of giving within the CFC.**

OPM proposes to eliminate the printed charity directory. It also proposes to require that pledges be made online, ending the use of a printed pledge card and the receipt of cash and checks. We believe these changes to be ill-advised and anticipate that they will make it more difficult for many donors to participate in the CFC and that the amount of money raised will decline.

While CFC donors are increasingly using online tools to search for charities and pledge, data from PCFOs make amply clear that the majority of those participating in the campaign employ the printed directory and pledge card. Many donors, moreover, give by cash or check.

As the wider charity world explores the more extensive use of online tools to encourage and capture donations, experts time and again argue that those seeking financial support should make it easy for potential donors. Indeed, at OPM's own recent training conference in Atlanta, the keynote speaker argued that fundraising programs should offer donors an array of traditional and digital pathways.

The speaker was Katya Andresen, chief operating officer and chief strategy officer of Network for Good, an online fundraising enterprise. Here is a quotation from her blog: "Reach out to your donors and find out what communications and donation options they prefer. You may think the majority of your folks are strictly offline (or exclusively online). Don't assume! Get to know them!" Has anyone considered asking CFC donors how they would like to give?

We support what America's Charities and nine other national organization stated in their May 21, 2013 comment:

> While we strongly endorse the expansion of online giving options for federal donors, we know from experience that it is a critical mistake to eliminate traditional means of giving altogether. Many federal employees who give through the CFC do not have access to, or choose not to use, on-line giving. This is a reality for many members of the military, Postal Service employees, Park Services personnel, and others in similar settings and circumstances that are frequently without access to computers or cell phones.

As we have noted, OPM proposes 1) to eliminate the printed directory and pledge card and 2) to shift the cost of the CFC explicitly to charities. We also note that OPM appears to be encouraging charities to produce and distribute printed literature of their own, as long as agency heads so permit. We cannot help wondering if the far simpler approach would be to shift the cost of the campaign to the charities <u>and</u> maintain the printed directory and pledge card. Charities – writing to OPM individually or as federations or as PCFOs – are arguing that the directory and pledge card should be preserved. If the charities are to pay, we believe the CFC should allow them to pay for something they believe will work.

It is also worth at least a mention that if charities are paying for campaign operations, they should be allowed to absorb the cost of food and drink at CFC events.

## <u>Comment 7: Eliminating the PCFO structure</u>

**We respect OPM's desire to streamline the administration of the campaign at the local level but are concerned that critical institutional and community-based capacities may be lost.**

OPM proposes to eliminate the PCFO structure, replacing it with Regional Coordinating Committees. LFCCs would also be eliminated.

While we have expressed our support for consolidating back-office functions, we are concerned that OPM may be reducing the institutional memory and personal relationships that have underpinned the CFC for many years. PCFOs have offered their experience year after year, making it far easier for everyone else involved in the CFC to reach out to potential donors.

OPM has allowed that the proposed Regional Coordinating Committees may hire marketing support, and the government may intend that organizations that have served as PCFOs be retained under this new system. We certainly encourage any step in the direction of such continuity, absent which the CFC will suffer.

## Comment 8: Preserving the current administrative and fundraising rate formula

**We recommend that OPM revise the AFR formula so that donors are better informed as to the portion of charity expense that goes to overhead.**

The CFC publishes an administrative and fundraising rate for every participating charity. The AFR formula uses figures from each group's Form 990:

*Management and General Expense + Fundraising Expense*

*divided by*

*Total Revenue.*

OPM proposes to maintain this formula.

As federations, we have seen repeatedly how this formula misrepresents the financial situation of participating charities. We believe that donors are interpreting the AFR as a reflection of how much total expense is being directed at management and fundraising. We do not believe that donors generally understand that the formula's denominator is total revenue.

Accrual accounting often makes the misrepresentation all the more severe. If, for example, a charity receives a multi-year grant, all of the revenue of that grant will be booked in the year of its receipt. Expenses associated with the grant will be booked in the years when the money is spent, however. The result will be a roller coaster ride where the AFR will artificially be low in the first year and high in later years. The organization will not have directed more funds to program in the first year and less in later years. It is only the artificiality of the OPM rule that sends this message.

Our research shows that donors do look at the AFR, supporting groups that appear more "efficient." We believe the AFR formula unfairly penalizes organizations that are successful in generating multi-year support. We urge OPM to revise the formula so that the denominator becomes Total Expense.

## Comment 9: Instituting changes with insufficient preparation

**We are concerned that OPM has not allowed sufficiently for the complexities inherent in the substantial changes it is proposing for the CFC.**

On May 1, 2013, 21 federations associated with Independent Charities of America submitted their comment. Early in their letter, they wrote:

> The most important counsel we can offer is this: TEST. TEST. TEST.
>
> The proposed rules establish a campaign structure so fundamentally different – and the potential impact of campaign failure is so deleterious if the rules do not work as planned – that it would be imprudent not to test the new design first. We recommend testing the new system in one or two regions for at least two campaign cycles.

Their letter offers examples of changes to the CFC and other campaigns that did damage where they were intended to help.

We concur that OPM should more fully explore the feasibility of many of the proposed changes. As we have discussed, we are concerned that the proposed regulations will:

- lead many charities to decline to participate in the CFC,
- make it far more difficult for potential federal employees to find charities of interest,
- reduce the number of federal employees who will participate in the campaign, and
- reduce the funding that will flow to benefiting organizations.

In a recent budget submission to Congress, OPM implied that aspects of the new regulations will go into effect in FY 15. We support the recommendation that OPM give itself sufficient time to allow for the design and testing of a variety of new CFC systems.

We wonder, for example, how OPM will implement a new web-based database system with proper fields and adequate search. Under current regulation, administrative innovations can be initiated by PCFOs which are able to recover their costs later. Under the proposed regulations, the development of new systems that involve cost will need to wait until revenue becomes available from charity application fees. So, if the first CFC revenue flowing from application fees becomes available in January 2015, the newly hired Central Campaign Administrator(s) will have only a few months to put into place all of their administrative procedures – including the new website, database and search function. We worry that there will not be enough time before the fall 2015 CFC kicks off.

OPM can ask the new administrators to start early, of course. Alternatively, OPM can ask them to advance the cost of their activity, to be repaid from revenue earned from application fees. But does not this put the CFC back into the business of asking an outside entity to advance the cost of operation?

We believe that OPM should reverse itself on the creation of an up-front application fee. We believe a system can be designed that will allow service providers to recover their costs from the participating charities after the donations start to flow. PCFOs do this today. We believe that Central Campaign Administrator(s) can also obtain a line of credit, using CFC donations as collateral.

Our point is that this is only one of many complex decisions that must be made. We hope that OPM gives itself the necessary time.

## A Final Comment: The Need for Renewed Dialogue

**We call on OPM to renew its dialogue with the CFC community, reaffirming its commitment to a program that has raised more than $7 billion for thousands of charities.**

In 2011 OPM announced the creation of the CFC 50 Commission. While the CFC confronted challenges, there was optimism that reforms could be designed that would set the foundation for another half century of employee generosity in support of many thousands of local and national charities.

Our federations – which work with over 500 charities – have looked forward to the opportunity to reinvigorate the CFC. We are aware of all that federal employees make possible across the country through their ongoing generosity.

But today, we are worried that the CFC has entered a time of even greater difficulty as efforts to advance the program have resulted in a growing sense that the continued operation of the campaign is in doubt. We know that OPM remains committed to the CFC. We worry, though, that the cumulative effect of the many proposed changes to the program may undermine what has been built over so many years.

Repeatedly these last few months, many of us who are concerned about the future of the CFC have sought to engage OPM in substantive discussions on where the program is headed. Unfortunately, the agency has felt constrained by the process of issuing new regulations and has not been able to respond to the wide community eager to exchange ideas.

Soon, the official comment period will be over. Whatever decisions OPM takes, we hope the agency will step forward to strongly renew its commitment to the CFC. So many people depend on the work of so many charities, and so many charities depend on the generosity of so many federal donors.

OPM is more than a regulator. It is the custodian of a charitable system that has contributed much. We hope that you will reach out to all of us, and engage in a dialogue that can reaffirm the shared opportunity to build a better Combined Federal Campaign.

**Attachment A**

## *Drafting Errors and Technical Issues in the Draft Regulations*

In reviewing the proposed regulations, we have identified possible drafting errors and technical issues which we report here:

- In section 950.101, the draft regulations define Campaign Expenses as "the cost of the administration of the campaign by the Central Campaign Administrator and any regional marketing organizations." We note that Section 950.107 (a) adds "training and traveling for the RCC" to the list of recoverable expenses.

- In section 950.101, the draft regulations define Central Campaign Administrator as an organization(s) "to which OPM may assign responsibility for making distributions to charities." Elsewhere in the draft regulations, OPM employs language which makes clear that federations are responsible for distributing funds to their members. We draw your attention to section 950.501 (c).

- In section 950.202 (a) (2), the draft regulations state that the CFC will use the IRS Business Master File to verify information provided by each applicant. The regulations go on to state: "If the organization does not appear in the BMF, one of the following must accompany the application:

  > An affirmation letter from the IRS, dated on or after January 1 of the campaign year to which the organization is applying…."

  We note that in section 950.203 (d), the regulations require that all materials be "completed and submitted prior to the application filing deadline." Our concern is that the regulations as drafted will not allow charities sufficient time to resolve a technical problem involving their tax exempt status. We assume that OPM wishes charities to have this opportunity and will be able to rephrase these passages to allow such.

- In section 950.203 (a) (3), the paragraph includes two incomplete sentences. The format of this portion of the regulation has been to start each passage with a single incomplete sentence. We wonder if OPM intended to use two incomplete sentences.

- In section 950.401 (b), we see two typographical errors. First, after the second sentence of the second paragraph, "CFC" seems to be floating, attached to no sentence. In the third sentence, there is an unnecessary comma after RCC.

**Attachment B**

## *Federation Fees*

**A report by the Workplace Giving Alliance**
**January 2013**

This report surveys what the national and international CFC federations were saying publicly about their fees in late 2012 and early 2013. You may access the report via the link below.

http://www.wg-alliance.org/uploads/1/6/4/4/16442864/federation_fees_final_narrative_and_appendixjan_18_2013.pdf

**Attachment C**

## *Impact of Application Fees on Charity Participation in the CFC*

The draft regulations call for CFC operations to be funded by means of a non-refundable application fee. OPM has declined to provide details regarding the fee. We do not know if national and international charities will be charged the same fee as local groups. We do not know if the fee might be tied to a charity's earlier results. What we do know is that charities will react to a non-refundable fee as would any of us – with doubt and hesitation.

The Workplace Giving Alliance (WGA) has projected how many charities would be likely to drop out of the CFC given various fee scenarios. These projections use CFC pledge data we have compiled and analyzed for both national and local charities. For national charities, the data came from the 2009, 2010, and 2011 campaigns. For local charities, the data came from the 2012 campaign.

Our objective in this analysis is to anticipate how charities will react to an upfront fee that will not be refundable – even if the CFC denies a charity's application. Below, we discuss the fee from two perspectives.

First, we consider how charities will protect themselves from the possibility that they will be charged more to enter the CFC than they will ultimately receive from federal donors.

Second, we consider the challenge that the CFC will face as it attempts to raise a particular amount of money from applicant charities while many prospective applicants are electing to walk away from the campaign.

### The Charity Perspective

To state the obvious, charities enter the CFC to raise money. Therefore, as charities consider whether they will pay a fee to apply to the campaign, they will naturally look to past CFC results.

Our own review of pledge data for national and international charities shows that charities experience substantial swings in the amount of money pledged to them from one year to the next. We refer to this phenomenon as *pledge volatility*. When we looked at 2009, 2010 and 2011 pledge results, we discovered that almost half of the participating charities saw their results rise or fall by 25% or more each year. About one in five saw their results rise or fall by *50%* or more each year. The table below gives precise numbers.

| Compare Charities in Consecutive Campaigns | 2010 compared with 2009 (2121 Charities*) | | 2011 compared with 2010 (2258 Charities*) | |
|---|---|---|---|---|
| Groups rising more than 25% | 548 | 26% | 439 | 19% |
| Groups falling more than 25% | 472 | 22% | 634 | 29% |
| Groups rising more than 50% | 314 | 15% | 251 | 11% |
| Groups falling more than 50% | 149 | 7% | 193 | 9% |
| * More charities than this were actually in each CFC, but we are looking at only groups that participated in both years. | | | | |

So whatever fee OPM sets, charities that have participated in the CFC will evaluate that fee in light of what they have been raising. We assume, in fact, that charities will build in a cushion. If a group most recently received pledges of, say, $5,000, it will likely recognize that in the next campaign that total could rise or fall by a few thousand dollars. If the fee is anywhere near $5,000, the charity will hesitate and may decide to drop out.

There are factors beyond pledge volatility that will reinforce a charity's caution. The CFC community generally talks in terms of pledges, but charities receive less than the amount pledged since not all pledges convert to actual donations. In addition, donations are reduced by PCFOs and, if relevant, federations.

The CFC will explain to charities that reductions by PCFOs and federations will no longer occur, but charities will still evaluate the application fee with an understanding that actual receipts will be lower than the pledge numbers, if only because of pledge non-fulfillment. Charities may not know the typical rate of non-fulfillment, so they will be inclined toward higher estimates. Charities will also recognize the need to pay the application fee for two years before they receive donations from the first campaign.

Taking these factors together, we assume that charities will introduce a cushion of 50 percent or more when evaluating a fee. For example, if the fee is $5,000, we believe charities that have raised as much as $7,500 will hesitate to pay.

The fee may be modest – say $600 – or high, but the reaction will be the same. The cushion may be 50% as we hypothesize, or more, or less. But charities will apply some kind of cushion as they evaluate whether to enter the CFC. Given the concern charities have expressed about how the proposed changes may cause donor participation to drop, it seems quite possible that charities will choose to exercise much more caution than is inherent in our assumption.

## The Cascade: OPM's Challenge in Setting the Fee

The draft regulations state that "the fee structure will be determined annually by the Director based on estimated costs of administering the campaign." This seems straightforward: Create a budget and divide by the number of charities that will participate in order to arrive at the fee amount.

But how many charities will participate? Obviously, any charity that has raised less than the fee amount will decline to pay the fee. As we have discussed, we anticipate that charities will introduce a cushion of 50% or more, leading additional groups to drop out.

The fact is that no one can predict how many charities will apply to the CFC, especially in the first year after major changes go into effect. OPM must consider this in setting the fee and adjust it upward to compensate for the unknown number of charities that will decline to pay. The upward adjustment in turn will cause additional charities to drop out, requiring another upward adjustment. And so it continues.

This is the cascade.

We have projected how the cascade might play out for national and international charities, using actual numbers for funds received (not pledges) from the 2011 CFC. In this scenario, we assume that OPM has established a CFC budget of $10 million and will seek to raise half of this from about 2,500 national and international applicants and the rest from local applicants. We also assume that charities will apply the 50% cushion.

> Dividing $5 million by 2,500 applicants, we get a fee of $2,000.
>
> With a 50% cushion, any charity raising less than $3,000 ($2,000 X 1.5) will drop out.
>
> The 2011 pledge data shows us that 350 national and international charities did in fact raise less than $3,000. Assuming all 350 groups drop out, the applicant pool is now 2,150.
>
> Seeking the same $5 million, the CFC needs to raise the fee to offset the reduced applicant pool. The new higher fee is about $2,325.
>
> Adding the 50% cushion, the threshold for charities rises to about $3,487. Now, a total of 426 national and international charities are likely to drop out. This is 76 more than dropped out initially.
>
> To offset this loss of applicants and their fees, the CFC once again needs to raise the fee – to about $2,410. We add the 50% cushion and get a threshold of about $3,615, and now 442 groups decline to participate.
>
> The CFC has lost almost 20 percent of the original applicant pool, and the cascade is not finished.

Naturally, the CFC will need to anticipate this drop-off at the very beginning since OPM cannot raise fees retroactively.

Our point is that this slope is truly slippery, and planning an upfront fee is more complex than just dividing a target budget by a certain number of charities.

## About Local Charities

We have also looked at the impact of an application fee on local charities. They are much more numerous, of course, and they participate in zones that raise vastly different amounts of money. So to get a handle on how charities at the local level might decline to participate, we examined seven zones – ranging from the largest in the campaign (National Capital Area) to some of the smallest.

Since there are so many more groups at the local level, we assumed a much lower fee: $600. We still adjusted it for a 50% cushion. The table below shows the number of charities likely to withdraw immediately.

We did not apply the cascade effect in these cases.

| PCFO | Total 2012 Pledges | Total Local Charities Participating | Number of Local Charities Withdrawing | Percent of Local Charities Withdrawing |
|---|---|---|---|---|
| 990 National Capital Area | $61,616,748 | 1,942 | 385 | 20% |
| 839 Dallas-Ft. Worth | $3,738,339 | 247 | 66 | 27% |
| 528 Gateway | $2,972,891 | 607 | 314 | 52% |
| 772 Coastal Carolina | $1,748,619 | 78 | 16 | 21% |
| 606 Central Northern New Mexico | $1,509,038 | 153 | 56 | 37% |
| 007 Muscle Shoals Area | $159,580 | 54 | 38 | 70% |
| 545 Western Montana | $137,399 | 72 | 45 | 63% |

As you can see, the effect of an upfront fee is much more pronounced on local charities in areas now served by small PCFOs.

**Attachment D**

## *Helping a Million Donors Choose: Online Search in the CFC*

**A report by the Workplace Giving Alliance**
**May 2013**

This report examines online search tools used on CFC websites as of January-February 2013, noting deficiencies that we believe will harm the CFC if they continue. You may access the report via the link below.

http://www.wg-alliance.org/uploads/1/6/4/4/16442864/online_search_in_cfc.pdf