

Nonprofit Organizations in the Pioneer Valley: Contributing to Communities Across the Region

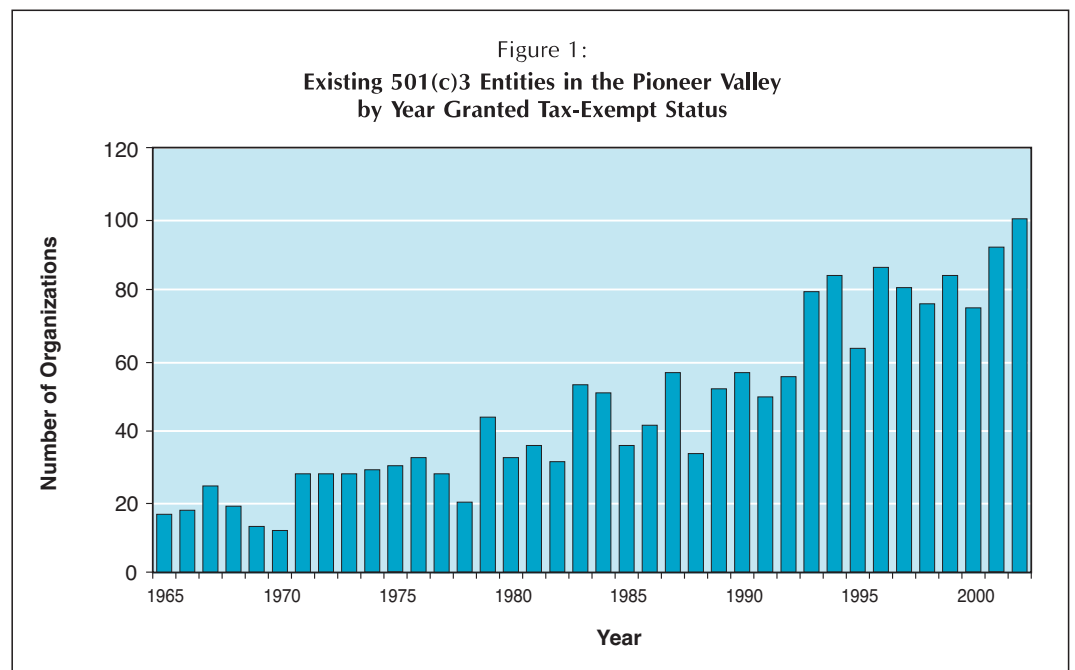
By promoting cultural events, the arts, health and safety, education, community activities, civil rights, and the environment, nonprofit organizations provide an array of services that make a positive and significant contribution to the quality of life as well as the economy of the Pioneer Valley. The development of nonprofit organizations in the Pioneer Valley over the last 30 years has created a large sector that is difficult to define because of its diversity. Nonprofit organizations operating in the region range from a local girl's soccer team run exclusively by volunteers to Baystate Health System, the Pioneer Valley's largest employer. This data digest examines the Pioneer Valley's nonprofits, their diversity, and recent trends in their development.

The data included in this report comes from the National Center for Charitable Statistics (NCCS) at the Urban Institute. The NCCS categorizes nonprofit organizations by their program sector, as defined by their principal activities (e.g. human services, health, environment, education, etc.). Though the NCCS provides detailed classifications, this report focuses on the broad categories that are most significant to the Pioneer Valley.

Federal Internal Revenue Service (IRS) Tax Form 990 data, providing reasonably detailed information about organizations' activities and finances, are available for about half (52 percent) of all Pioneer Valley nonprofits that are included in the overall NCCS database.¹ However, one-third (35 percent) of all local nonprofits found in the NCCS database are not categorized, and about 80 percent of those are not required to file IRS Tax Form 990. This suggests that most non-categorized nonprofits are very small or religiously-oriented nonprofits; therefore, they are excluded from the detailed analysis presented in this digest.

Overview of Nonprofits in the Pioneer Valley

Reflecting the Pioneer Valley's far-reaching demand for the contributions and services provided by its nonprofit organizations, nearly every city or town in the region currently is home to at least one nonprofit entity (Map 1). Predictably, most nonprofit organizations are concentrated in the Pioneer Valley's population centers such as Springfield (487), Northampton (219), Amherst (191), Holyoke (128), Greenfield (100), Westfield (87), Chicopee (61), and West Springfield (60). However, relative to population size, small towns have the greatest concentrations of nonprofit organizations, (Map 2). At 14.4, 13.6, 9.5, and 9.0 nonprofit organizations per 1,000 residents, Rowe, Shelburne, Leverett, and



Source: The Urban Institute, National Center for Charitable Statistics

Williamsburg respectively have the highest concentrations of organizations. Areas with the highest population density, on the other hand, are home to fewer nonprofits per 1,000 residents, including Springfield (3.2), Chicopee (1.1), and Holyoke (3.2). This information is based on a dataset that includes all nonprofit entities that have an active tax status as of July 2003.²

Since the early 1970s there has been significant growth in the number of nonprofit organizations in the region and significant turnover as well. IRS Advanced Ruling Dates illustrate both growth and turnover by indicating when a nonprofit organization was first granted tax-exempt status by the federal government (Figure 1).³ More than 50 percent of Pioneer Valley nonprofit entities (51.1 percent) in 2003 received their tax-exempt status in 1990 or later. The rapid growth in the number of nonprofit entities is obvious in that 425 entities, in existence in the Pioneer Valley in 2003, did not exist before 1998. Furthermore, only 240 nonprofit organizations, or 12.6 percent of the total, have been in business since before 1970.

It is important to note that the data used in this report to some degree overstates the extent of growth in the number of nonprofit organizations for two reasons: 1) some organizations founded within the timeframe presented in Figure 1 may have gone out of business and, if their tax identification number was retired by the IRS, they will not appear in these numbers; and, 2) this data reflects all tax identification numbers, but many organizations have multiple numbers to meet the requirements of their programs. Nevertheless, because the IRS is slow and imprecise about retiring inactive tax identification numbers, the data supports a conclusion that there has been a sizable increase in the number of nonprofit organizations in the Pioneer Valley.

Analysis of Filers by Sector

There are six NCCS defined sectors with significant numbers of active nonprofit organizations in the Pioneer Valley: Arts & Culture, Education, Environment & Animals, Health, Human Services, and Public & Societal Benefit (Figure 2 identifies the types of organizations in each sector). An NCCS dataset, based on annual IRS Form 990 information, provides additional information to analyze in understanding trends across program sectors. This analysis only includes those organizations with annual revenues in excess of \$25,000 (the threshold requiring filing of Form 990). Information available on these nonprofits, subsequently referred to as *filers*, is useful in following trends in both the number of nonprofit organizations (Figures 3 & 4) and financial statistics (Figure 5) on an annual basis between 1990 and 2002. For financial comparisons we analyze change in average statistics per organization because this eliminates errors that might arise from missing organizations.⁴

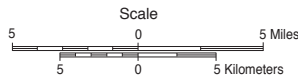
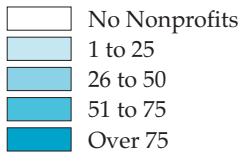
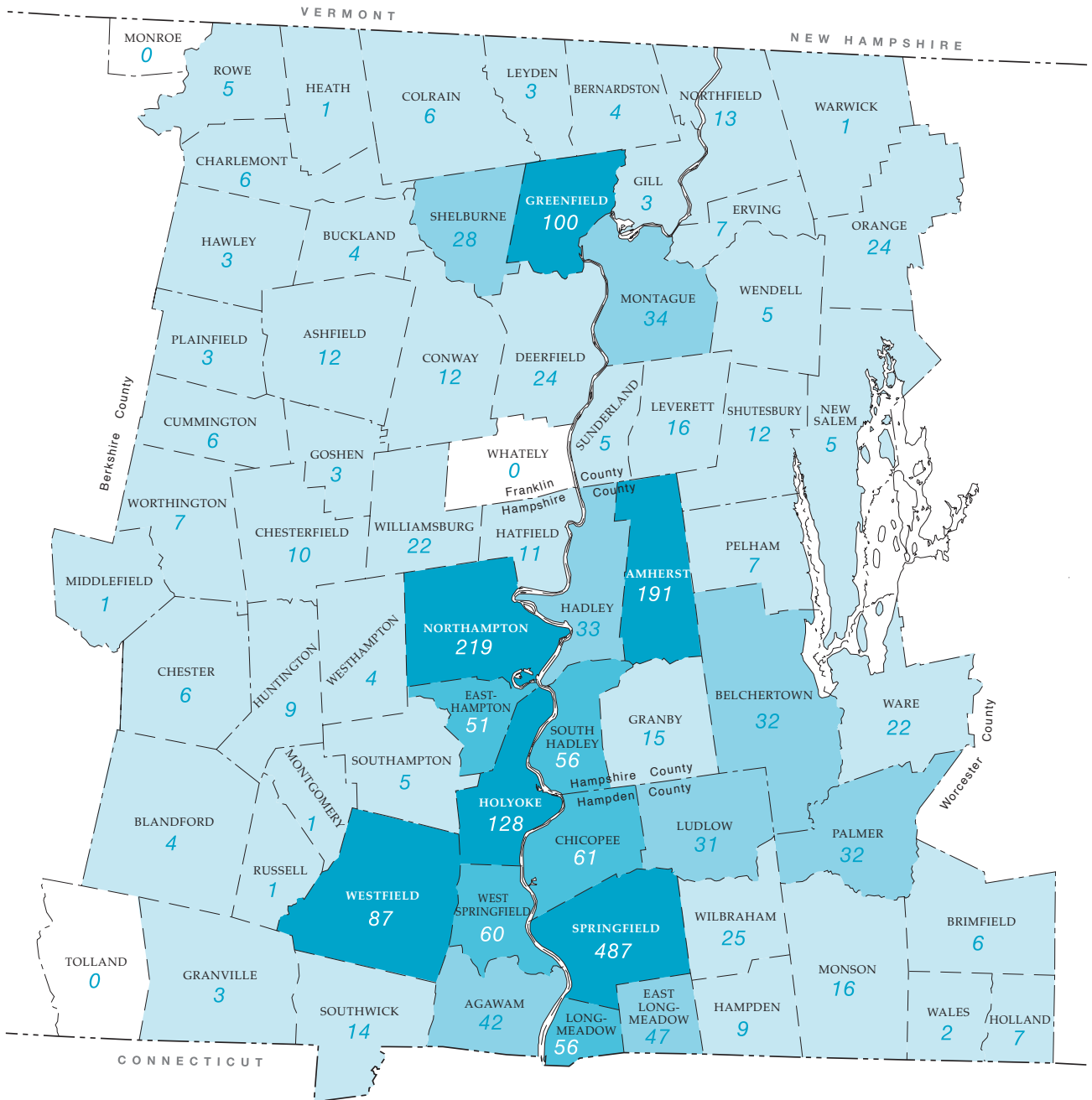
Of those nonprofit organizations that are filers, every program sector experienced growth in the number of active organizations in the Pioneer Valley (Figures 3 & 4).⁵ Comparing the total number of organizations in each program sector highlights the very different structures and circumstances that characterize each sector. For example, while the Human Services sector has the

Figure 2:

Program Sector	Types of Organizations and Services
<i>Arts & Culture</i>	Arts education Arts councils and agencies Media and communications Visual arts Museums Performing arts Historical societies
<i>Education</i>	Elementary and secondary schools Vocational and technical schools Higher education Graduate and professional schools Adult education Libraries Student services Educational support
<i>Environment & Animals</i>	Pollution abatement and control Natural resources conservation and protection Botanical, horticultural, and landscape services Environmental beautification Environmental education Animal protection and welfare Wildlife preservation and protection Veterinary services Zoos and aquariums Animal services
<i>Health</i>	Hospitals Ambulatory and primary health care Reproductive health care Rehabilitative care Health support Public health Nursing Substance abuse dependency prevention and treatment Mental health treatment Hot lines and crisis intervention Addictive disorders Counseling Diseases, disorders, and medical disciplines Medical research
<i>Human Services</i>	Crime and legal-related Employment assistance Food, agriculture, and nutrition Housing and shelter Public safety, disaster preparedness and relief Recreation and sports Youth development Children and youth services Family services Personal social services Emergency assistance Residential care Centers to support the independence of specific populations
<i>Public & Societal Benefit</i>	Civil rights, social action, and advocacy Community improvement and capacity building Philanthropy, volunteerism and grantmaking Science and technology Social science Financial institutions (credit unions) Leadership development Consumer protection

Source: The National Center for Charitable Statistics, National Taxonomy of Exempt Entities Core Codes

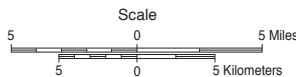
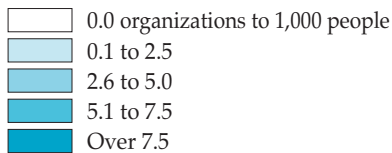
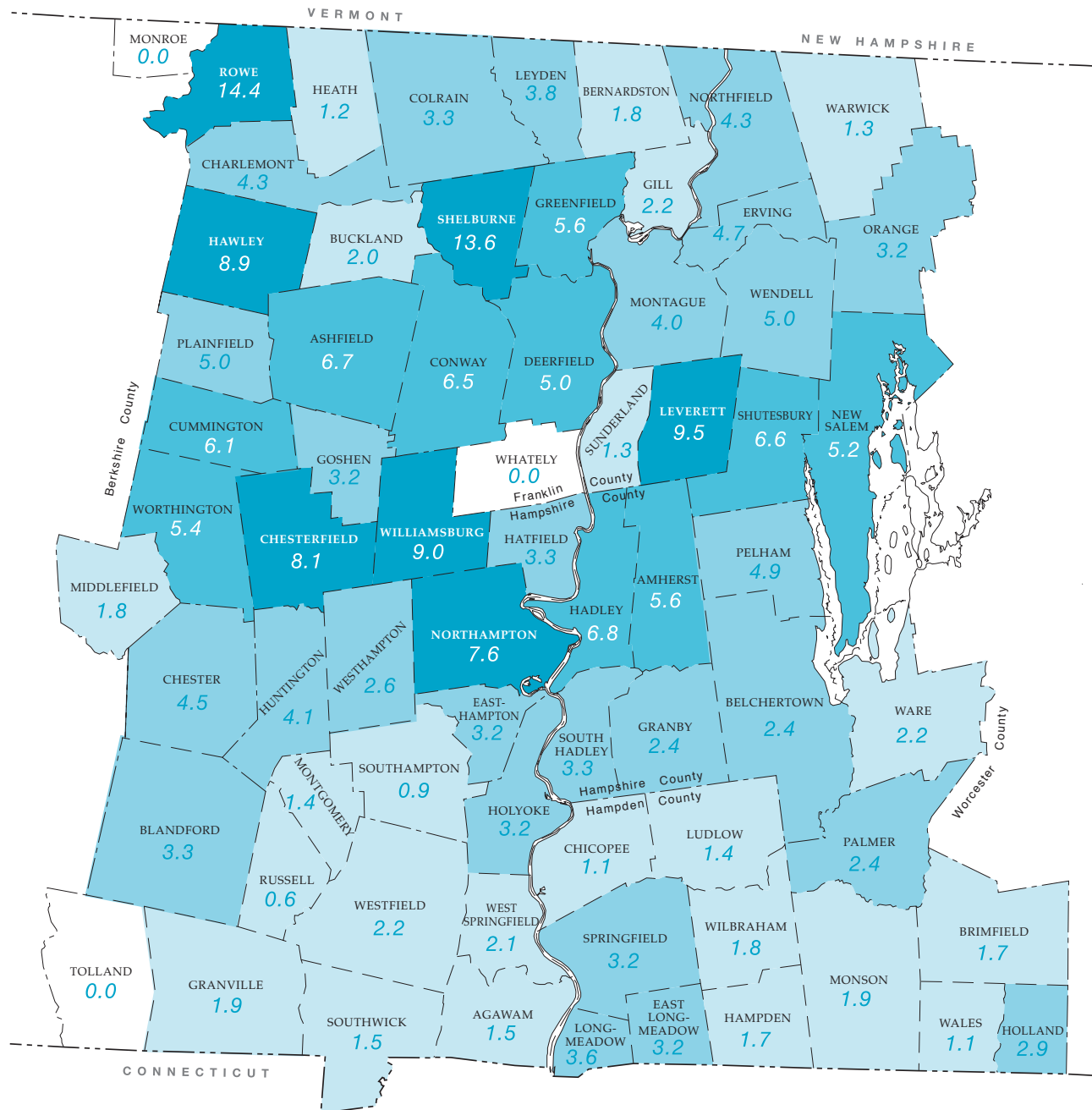
Map 1: Number of Nonprofit Organizations by Community (2002)



Produced by:
Pioneer Valley
Planning Commission
26 Central Street
West Springfield, MA 01089
June 2004

Source: The Urban Institute, National Center for Charitable Statistics

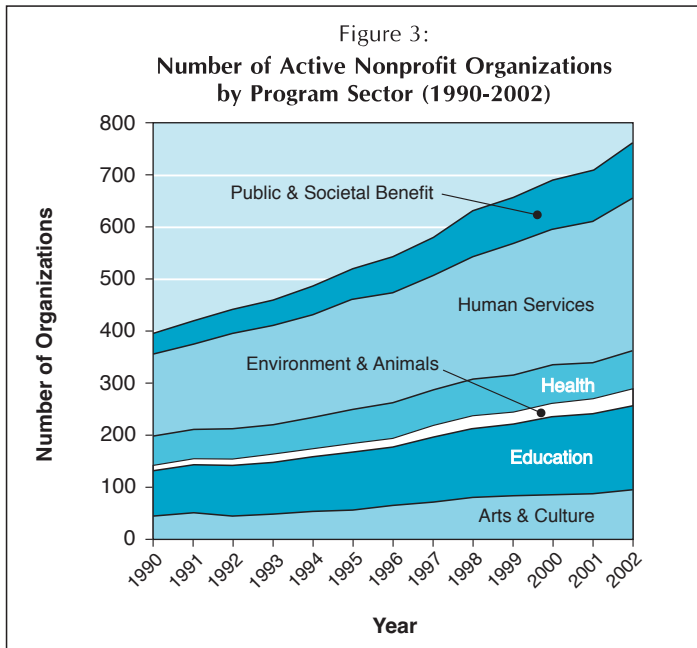
Map 2:
**Number of Nonprofit Organizations per 1,000 Residents
 by Community (2002)**



Produced by:
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Source: The Urban Institute, National Center for Charitable Statistics

largest total number of organizations (291 nonprofits in 2002), the Health sector has far fewer organizations (75 nonprofits in 2002) but they are generally much larger entities. The Environment & Animals sector, representing the smallest total number of organizations, had the largest percent increase, 121 percent, in the number of filers between 1992 and 2002. The Public & Societal Benefit and Arts & Culture sectors also had significant percent increases in the number of organizations at 115 and 109 percent respectively. Meanwhile, the Education and Human Services sector grew at slower rates of 71 and 60 percent, respectively, but continue to comprise the largest number of organizations.



Source: The Urban Institute, National Center for Charitable Statistics

Between 1990 and 2002, when controlled for inflation, the average Pioneer Valley nonprofit experienced stable financial assets, expenses, and revenues (Figure 5). Revenues generated by the average filing organization from 1990 to 2002 varied between \$4.26 and \$4.96 million dollars, while the average organization's expenses varied between \$3.89 and \$4.31 million dollars. Program service revenue generated from 68 to 76 percent of total revenue in the same time period, while revenues from contributions remained below the one million-dollar mark for the average nonprofit.

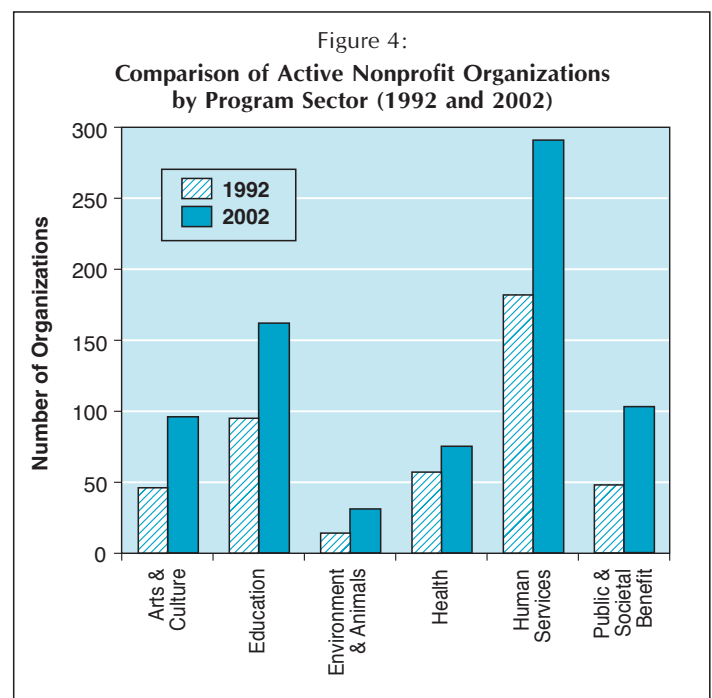
Overall, nonprofit sectors in the Pioneer Valley are vastly different in average financial statistics per organization (Figure 6). For instance, the monetary value of the average Health organization's revenues, expenses, assets, and liabilities far exceeds those for all other sectors. The average Education, Public & Societal Benefit, and Arts & Culture organizations, which have vastly different numbers, each hold in assets nearly or more than double the amount of their annual revenues.

Collectively, the Pioneer Valley's nonprofit organizations play a significant role in the region's economy (Figure 7). Nonprofit filing organizations held \$4.2 billion in end-of-year assets at the close of 2002. Moreover, nonprofit filers spent \$3.1 billion in 2002, which

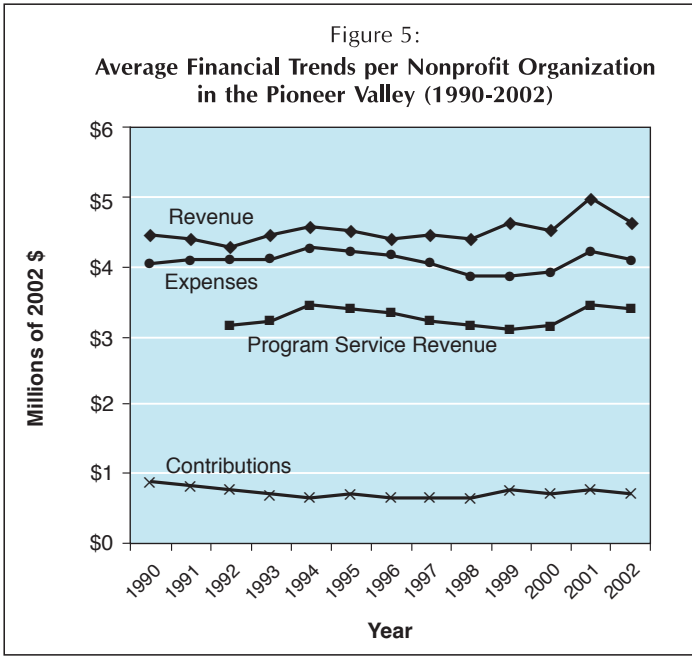
is particularly noteworthy given that nonprofit organizations typically spend between 75 and 100 percent of their dollars locally.⁶ Nonprofits' local spending includes employee wages and benefits as well as direct expenses such as the purchase of goods and services. In 2002, nonprofit filers in the Pioneer Valley generated just under \$3.5 billion in revenues. Of this total, 73 percent, or \$2.6 billion, was program service revenues, which consist of fees for services rendered such as government contracts or insurance payments to hospitals for patient care. Philanthropic contributions and investment income accounted for 16 and 4 percent of revenues, respectively.

In 2002, contributions to nonprofit organizations totaled over half a billion dollars, with the principal sources being government grants as well as public philanthropic support, which includes both individual donations and foundation grants. Correspondingly, the total amount of resources spent by nonprofit organizations in order to raise money reached almost \$36 million in 2002, which translates to seven cents spent for every dollar raised.

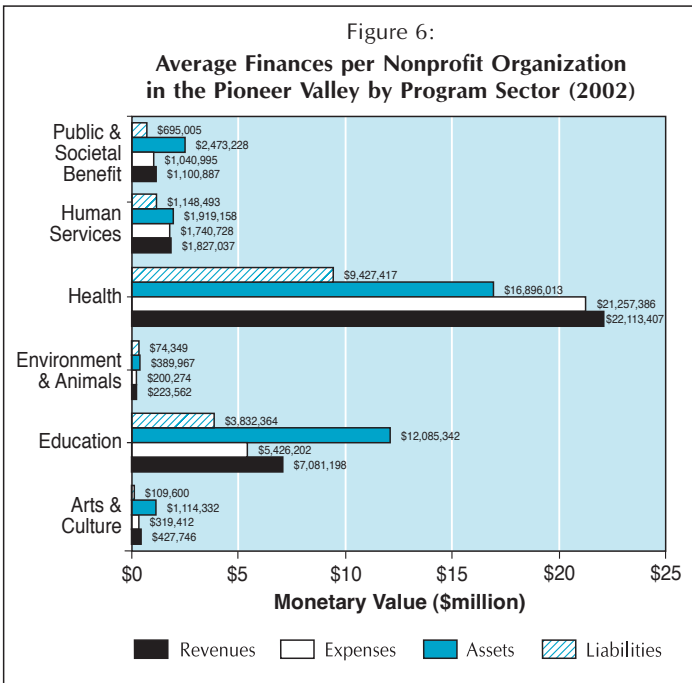
Reviewing the financial resources of the average nonprofit organization in the Pioneer Valley, regardless of sector, reveals financial stability between 1992 and 2002. Over this 10-year span, revenues of the average organization increased slightly by 8.3 percent. Revenues from dues and investment income per organization dropped significantly, by 37 and 22 percent, respectively, but program service revenue per organization increased by 8 percent. Expenses for the average nonprofit organization remained constant, liabilities increased by 20 percent, and assets dropped by 30 percent between 1992 and 2002. These financial statistics suggest that the average nonprofit in the region generates and subsequently spends significant financial resources within the Pioneer Valley, thereby producing economic benefits and jobs (\$4.6 million in revenues and \$4.1 million in expenses per organization in 2002).



Source: The Urban Institute, National Center for Charitable Statistics



Source: The Urban Institute, National Center for Charitable Statistics



Source: The Urban Institute, National Center for Charitable Statistics

Taking a closer look at the finances of particular program sectors within the Pioneer Valley's nonprofit community yields greater insight about specific contributions. Health and Education organizations, for example, both produced in excess of one billion dollars in total revenues in 2002 at \$1.7 billion and \$1.1 billion, respectively. In 2002, Health organizations generated the vast majority of their revenues from program services (95 percent), while Education organizations generated half their revenue from program services (50 percent) and another quarter came from contributions (26 percent).

Arts & Culture organizations generated \$41 million in revenues in 2002, with about half coming from contributions (47 percent) and about a third from program services (32 percent). Environment & Animal organizations in the Pioneer Valley relied most heavily on contributions (75 percent) for a cumulative \$6.9 million revenue stream in 2002. The Public & Social Benefit sector generated revenues in excess of \$110 million in 2002, with the two major sources being program services (58 percent) and contributions (32 percent).

In 2002, per filer revenues generated by the Pioneer Valley's nonprofit Health sector far exceeded all other program sectors, generating \$22 million per filing organization, as compared to \$7 million per filer for the Education sector and less than half a million dollars per filer for the Arts & Culture sector. These comparisons highlight the unique nature of the region's nonprofit Health sector in that it provides high-cost services through a small number of facilities, as opposed to the much lower-cost and more dispersed activities of the Pioneer Valley's Arts & Culture organizations. The Human Service and Environment & Animal sectors generated per-filer revenues of \$1.8 million and just over \$220,000 in 2002. Overall, the Environment & Animals nonprofit sector had the fewest number of tax filing organizations (31) and, logically, generated the least total revenue at \$6.9 million in 2002.

In 2002, the ratio of revenues to expenses varied only slightly across the Human Service, Health, and Public & Social Benefit sectors, with ratios of \$1.05, \$1.04, and \$1.06 dollars of revenue per dollar of expenses, respectively.⁷ In contrast, the Education and Arts & Culture sectors had significantly larger ratios respectively of \$1.31 and \$1.34 dollars of revenue per dollar of expenses. These higher ratios are unsurprising given that these two sectors are the most likely to be raising excess revenue for purposes of endowment building. The Education and Arts & Culture sectors had significantly lower revenue-to-expenses ratios in 1992 of \$1.07 and \$1.10, respectively, which may indicate a recent upsurge in endowment development.

The amount of money spent on fundraising, compared to every dollar raised, reflects the level of financial resources that are spent by nonprofits in order to generate contributions. The Pioneer Valley's Human Service sector had the lowest per dollar fundraising expenditures at two cents and one cent spent for every dollar raised in 2002 and 1992, respectively. The pattern of low expenditure per dollar raised reflects the limited investment the Human Service sector has made in order to raise money despite their reliance on contributions for 30 percent of their revenues in 2002. The nonprofit Education sector, on the other hand, spent the greatest amount of all program sectors on fundraising at ten cents spent per dollar raised in 2002. This is not surprising given the development and alumni affairs activities that are prevalent among the Pioneer Valley's nonprofit educational institutions. Interestingly, nonprofit Education organizations invest heavily in fundraising though they are considerably less dependent on revenues gained from contributions than are the region's Human Service, Environment & Animals, Arts & Culture, and Public & Social Benefit sectors.

Figure 7: **Statistics of Active Nonprofits by Program Sector (entities with revenues > \$25,000)**

	<i>Arts & Culture</i>	<i>Education</i>	<i>Environment & Animals</i>	<i>Health</i>	<i>Human Services</i>	<i>Public & Societal Benefit</i>	<i>Total</i>
2002 Totals							
Revenue	41,063,641	1,147,154,110	6,930,419	1,658,505,519	531,667,835	113,391,336	3,498,712,860
Program Service Revenue	12,921,515	569,813,339	1,193,908	1,575,634,427	341,602,824	65,566,199	2,566,732,212
Contributions	19,167,052	298,310,115	5,224,664	42,041,179	159,780,371	36,674,255	561,197,636
Investment Income	1,965,758	100,527,453	209,716	16,109,793	5,063,021	7,639,884	131,515,625
Dues	510,017	4,154,248	159,858	41,287	7,873,903	686,710	13,426,023
Expenses	30,663,546	879,044,783	6,208,484	1,594,303,960	506,551,877	107,222,488	3,123,995,138
Fundraising Expenses	1,334,920	28,425,624	261,180	1,221,249	2,775,894	1,599,279	35,618,146
Assets	106,975,852	1,957,825,393	12,088,972	1,267,200,988	558,474,907	254,742,519	4,157,308,631
Liabilities	10,521,597	620,843,034	2,304,832	707,056,253	334,211,548	71,585,475	1,746,522,739
2002 Average per Entity							
Number of Filers	96	162	31	75	291	103	758
Revenue	427,746	7,081,198	223,562	22,113,407	1,827,037	1,100,887	4,615,716
Program Service Revenue	134,599	3,517,366	38,513	21,008,459	1,173,893	636,565	3,386,190
Contributions	199,657	1,841,420	168,538	560,549	549,073	356,061	740,366
Investment Income	20,477	620,540	6,765	214,797	17,399	74,174	173,503
Dues	5,313	25,644	5,157	550	27,058	6,667	17,712
Expenses	319,412	5,426,202	200,274	21,257,386	1,740,728	1,040,995	4,121,366
Fundraising Expenses	13,905	175,467	8,425	16,283	9,539	15,527	46,990
Assets	1,114,332	12,085,342	389,967	16,896,013	1,919,158	2,473,228	5,484,576
Liabilities	109,600	3,832,364	74,349	9,427,417	1,148,493	695,005	2,304,120
1992 Average per Entity							
Number of Filers	46	95	14	57	182	48	442
Revenue	391,523	7,449,051	137,368	14,923,713	1,389,401	1,086,150	4,260,749
Program Service Revenue	120,308	4,460,645	63,851	14,026,834	687,981	549,349	3,125,114
Contributions	140,970	1,752,231	44,190	338,343	622,150	482,898	744,935
Investment Income	32,193	837,356	8,486	205,162	21,615	36,518	222,917
Dues	6,777	35,608	15,485	80,058	21,120	2,902	28,185
Expenses	356,815	6,989,265	132,157	14,732,107	1,362,257	1,029,789	4,116,141
Fundraising Expenses	6,486	200,684	1,720	20,275	4,578	21,010	50,644
Assets	1,145,009	24,623,519	227,415	12,442,624	1,334,347	1,933,870	7,782,794
Liabilities	73,979	3,157,962	70,071	6,387,073	772,646	870,351	1,925,005
Percent Change in Average per Entity (1992 - 2002)							
Revenue	9.3%	-4.9%	62.7%	48.2%	31.5%	1.4%	8.3%
Program Service Revenue	11.9%	-21.1%	-39.7%	49.8%	70.6%	15.9%	8.4%
Contributions	41.6%	5.1%	281.4%	65.7%	-11.7%	-26.3%	-0.6%
Investment Income	-36.4%	-25.9%	-20.3%	4.7%	-19.5%	103.1%	-22.2%
Dues	-21.6%	-28.0%	-66.7%	-99.3%	28.1%	129.8%	-37.2%
Expenses	-10.5%	-22.4%	51.5%	44.3%	27.8%	1.1%	0.1%
Fundraising Expenses	114.4%	-12.6%	389.8%	-19.7%	108.4%	-26.1%	-7.2%
Assets	-2.7%	-50.9%	71.5%	35.8%	43.8%	27.9%	-29.5%
Liabilities	48.2%	21.4%	6.1%	47.6%	48.6%	-20.1%	19.7%
Financial Indicators in 2002							
Revenue Dollars per Expense Dollar	\$1.34	\$1.31	\$1.12	\$1.04	\$1.05	\$1.06	\$1.12
Program Service Revenue as % of Revenue	31.5%	49.7%	17.2%	95.0%	64.3%	57.8%	73.4%
Contributions as Percent of Revenue	46.7%	26.0%	75.4%	2.5%	30.1%	32.3%	16.0%
Investment Income as Percent of Revenue	4.8%	8.8%	3.0%	1.0%	1.0%	6.7%	3.8%
Assets Dollars per Liability Dollar	\$10.17	\$3.15	\$5.25	\$1.79	\$1.67	\$3.56	\$2.38
Fundraising Expenses per Dollar Raised	\$0.07	\$0.10	\$0.05	\$0.03	\$0.02	\$0.04	\$0.06
Financial Indicators in 1992							
Revenue Dollars per Expense Dollar	\$1.10	\$1.07	\$1.04	\$1.01	\$1.02	\$1.05	\$1.04
Program Service Revenue as % of Revenue	30.7%	59.9%	46.5%	94.0%	49.5%	50.6%	73.3%
Contributions as Percent of Revenue	36.0%	23.5%	32.2%	2.3%	44.8%	44.5%	17.5%
Investment Income as Percent of Revenue	8.2%	11.2%	6.2%	1.4%	1.6%	3.4%	5.2%
Assets Dollars per Liability Dollar	\$15.48	\$7.80	\$3.25	\$1.95	\$1.73	\$2.22	\$4.04
Fundraising Expenses per Dollar Raised	\$0.05	\$0.11	\$0.04	\$0.06	\$0.01	\$0.04	\$0.07

Source: National Center for Charitable Statistics, Core Trend File

The average nonprofit health organization experienced substantial revenue growth between 1992 and 2002 with a 48.2 percent increase in total revenue that was led by a 65.7 percent increase in contributions. This increase was necessary to keep pace with expenditures that rose by 44.3 percent for the average health organization during the decade. The Environment & Animals sector also saw substantial revenue growth per organization, 62.7 percent, but it should be noted that these organizations had, in both 1992 and 2002, the lowest level of revenue per organization by a wide margin. Among sectors with a significant number of organizations, the Human Services sector saw their assets per organization rise the most, by 43.8 percent, but they also experienced the largest increase in liabilities at 48.6 percent, outpacing the growth in average asset value.

Two sectors, Human Services and Public & Societal Benefit, experienced declines in the average amount of contributions per organization between 1992 and 2002, dropping 11.7 percent and 26.3 percent, respectively. Education organizations saw their revenues per organization drop by 4.9 percent between 1992 and 2002, largely a result of declines of 21.1 percent and 25.9 percent in program service revenue and investment income, respectively. Both Education and Arts & Culture organizations saw their average assets per organization fall by 50.9 and 2.7 percent, respectively. The drop in Education sector assets is particularly sharp as the average education organization went from about \$25 million in assets in 1992 to \$12 million in 2002. Despite this decline, in 2002, the average Education organization had more assets than the average organization in any sector other than Health.

Comparing financial trends among different nonprofit program sectors provides a unique opportunity to better understand how each one has developed and contributes to the region's economy and quality of life. Overall, the data underscore and highlight a number of characteristics and trends in the development of the Pioneer Valley's nonprofit sector, including its incredible diversity, its substantial growth over the past three decades, and its consistent financial stability.

Definitions⁸

Assets: Includes real estate, accounts receivable, pledges receivable, grants receivable, inventories, and other assets.

Contributions: Voluntary cash and noncash contributions and grants that encourage an organization to carry on programs or activities that further its exempt purpose. Government grants are included here if they enable the recipient to provide a service to the public, rather than providing a service to the government.

Expenses: The sum of all annual expenses for program, fundraising, management, and general activities.

Fundraising Expenses: All expenses, personnel and otherwise, associated with publicizing and conducting fundraising campaigns, soliciting bequests and grants, participating in federated fundraising campaigns, preparing and distributing fundraising manuals, and conducting special events that generate contributions.

Investment Income: Interest on savings, temporary cash investments, securities, as well as dividends.

Liabilities: Includes accounts payable, grants payable, mortgages, notes payable, and bond liabilities.

Membership Dues or Assessments: payments received that are commensurate with benefits received by the payer. For example, a subscription to a college's alumni magazine would fit within this category.

Program Service Revenue: Fees collected in exchange for the organization's performance of its exempt purpose. Government fees and contracts collected in the provision of services on behalf of the government are included here.

Revenue: The sum of all annual revenues from contributions, program services, membership dues, investments, and other sources.

Footnotes

- ¹ "Churches, church-controlled or church-affiliated organizations, religious orders, and small charities with receipts under \$25,000 are exempt from filing Form 990." Accessed on 04/01/04 at: http://www.qual990.org/not_file.html.
- ² The dataset is the NCCS Business Master File which, according to the *Guide to Using the NCCS Data*, "probably overstates the number of registered, functioning nonprofits at a given time."
- ³ Referenced in the *Guide to Using the NCCS Data*, "ruling date data prior to 1965 are unreliable predictors of trends and . . . a ruling date does not necessarily coincide with the date on which the organization was formed."
- ⁴ The averages per entity could be inaccurate if too many organizations are missing and if those organizations that are missing have very different financial statistics. However, we decided the data did not seem inconsistent from one year to the next and, therefore, decided it was better to provide a year-to-year comparison than to exclude it.
- ⁵ Again, this may be overstated as some organizations may have gone out of business and therefore do not appear in the data; however, with such a short and recent timeframe, and given the time it takes for tax identification numbers to be retired, we believe the number of organizations that may be missing is small.
- ⁶ In the REMI and IMPLAN economic impact models, the regional purchase coefficient (defined as the percentage of goods purchased locally) for nonprofit industries in the Pioneer Valley varies between 75 and 100 percent. The value is more often on the higher end of that range.
- ⁷ This ratio reflects the number of dollars in revenue generated per dollar of expenses. A number below 1.00 would suggest operations in deficit.
- ⁸ Adapted from the Internal Revenue Services 2003 *Instructions for Form 990 and Form 990-EZ*.

The Pioneer Valley Planning Commission is the designated Regional Planning Agency for the Hampden and Hampshire county areas. Franklin County is served by the Franklin Regional Council of Governments. Because of the close relationship between our two regions we include Franklin County in some publications.

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