

TROPMAN REPORT

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THE PRECARIOUS BILLION DOLLAR SECTOR: *Nonprofit Human Services in the Pittsburgh Metropolitan Area*

The thousands of nonprofit organizations in the Pittsburgh metropolitan area are a vital part of the region. They touch nearly everyone's life, providing essential services to local residents and fostering civic participation and social cohesion. Yet nonprofits today are facing serious challenges—an economic downturn, declines in philanthropic giving, state budget shortfalls, realignment of government priorities, and homeland security issues. In this climate of uncertainty, many people are turning to nonprofit organizations to address community needs and public policy issues. Some nonprofits are also wrestling with an increased demand for their services while their own financial resources are strained and uncertain. With more being asked of nonprofits, it is essential to understand the capacity, management, and performance of the sector.

The Forbes Funds commissioned Carol J. De Vita and Eric C. Twombly at the Center on Nonprofits and Philanthropy at the Urban Institute to examine the financial structure and fiscal health of nonprofit human service organizations in the Pittsburgh metro area, so that local leaders can better plan for the future and invest in their communities. The study addressed six questions:

1. How many human service organizations operate in the Pittsburgh metro area?
2. How concentrated or diversified are their sources of revenue?
3. How much do human service organizations spend on management and administrative expenses as a percentage of their total budgets?
4. What is their average operating margin—that is, do revenues exceed expenditures?
5. What percentage of human service groups end the year with positive net income?
6. What are the average end-of-year net assets—do assets exceed liabilities?

On a related note, Carol De Vita conducted a similar analysis of Pittsburgh's nonprofit sector in the mid-1980s, as part of the Urban Institute's Nonprofit Sector Project, directed by Lester Salamon. Among their key findings then: (1) Pittsburgh's nonprofit sector was a major social and economic force in the Pittsburgh region, but it was proportionately smaller than its counterparts in 11 other sites; (2) Government was, by far, the largest single source of nonprofit revenue (53%), followed by service fees (19%), and all private giving (17%); and (3) Pittsburgh's nonprofits were turning to fee-for-service income to replace a decline in government funding—a move that might hurt the poor and most vulnerable who cannot afford to pay for services.

This new study evidences the extent to which the sector has evolved—given government devolution—and the extent to which the sector remains important but fragile.



Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

DATA AND METHODS

The data for this study are from the National Center for Charitable Statistics at the Urban Institute and are based on the Form 990 that nonprofit organizations filed with the Internal Revenue Service (IRS) in 2000. Because there is a lag in processing data, the year 2000 provides the most complete set of records for analysis. Data from 2000 can be regarded as a high water mark for the fiscal health of nonprofits, that is, before the stock market declined and the economy softened.

Form 990 data provide a detailed array of measures on the revenues, expenses, assets, and liabilities of nonprofit organizations, which together outline the financial structure and describe the fiscal health of the nonprofit sector. This data file, however, does not contain records on many of the small organizations in the Pittsburgh area with gross receipts of less than \$25,000 and most religious congregations. Organizations with revenues under \$25,000 are not required to file a Form 990, although some do, and religious congregations are not required to register with the IRS nor file Forms 990, although, again, some do. Despite these limitations, the data set includes the types of groups that are most likely to receive government funding and captures the vast majority of the nonprofit sector's resources. Hospitals are excluded from the analysis of human service organizations because their average budget is 20 times larger than other community-based human service groups. Inclusion of the hospitals would have obscured the financial picture of the other human service organizations.

FINDINGS

- Compared with other nearby metro areas, the size of the nonprofit sector in the Pittsburgh region is fairly typical. There are nearly 2,700 nonprofit organizations in the Pittsburgh metro area, or about 11.1 organizations for every 10,000 residents. With revenues of \$12.9 billion in 2000, the Pittsburgh nonprofit sector is roughly on a par with the nonprofit sectors in Cleveland and Baltimore — metro areas of similar population size.
- Looking only at human service organizations, Pittsburgh area nonprofits rank last in terms of per capita spending for residents in poverty. The 547 nonprofits that provide human services in the Pittsburgh metro area spent roughly \$3,700 in 2000 for each resident in poverty. Compared with six other metro areas (Baltimore, Buffalo, Cleveland, Detroit, Indianapolis, and Philadelphia), Pittsburgh's nonprofit human service sector spent the least

per capita on residents in poverty (see table 1). Cleveland, for example, spent \$4,550 per capita, while Philadelphia spent the most (\$5,855). Pittsburgh also had fewer human service providers per capita than most other metro areas in the study. This finding suggests that when Pittsburgh area residents need assistance, they have fewer options than residents in other cities, and less money is spent on their needs.

- The nonprofit human service sector in the Pittsburgh area is relatively small, despite revenues and expenses of nearly \$1 billion, each, in 2000. Human services account for about 20 percent of all nonprofit organizations in the region, but these groups have roughly 8 percent of the region's revenues and expenses and 6 percent of its assets. The average operating budget for human service groups is about \$1.7 million, although the "typical" (or median) budget is much smaller—about \$463,000. Although several of the largest human service providers are located in the city of Pittsburgh, there are no significant differences in revenues, expenses, or assets between groups in the city and those in the surrounding suburbs or counties.
- Client fees are the single most important source of revenue for nonprofit human service providers in the Pittsburgh area. Government funding is second. Client fees accounted for 40 percent of revenue and government funds for 28 percent (table 2). Together, these sources of income represented more than two-thirds of human service revenue, compared with less than half for the sector as a whole. Human services received about one in five dollars from private donations, foundation support, and charitable giving.

TABLE 1. Number of Nonprofit Human Service Providers Relative to the Poverty Population in Pittsburgh and Six Other Metropolitan Areas in 2000

Metro Area	Number of Human Service Nonprofits	Human Services as a Percent of All Nonprofits	Number of People in Poverty	Human Service Nonprofits per 1,000 Residents in Poverty	Human Service Expenditures (\$) per Resident in Poverty
Pittsburgh	547	21	248,600	2.2	3,712
<i>Metros of similar population size to Pittsburgh</i>					
Cleveland	634	22	238,700	2.7	4,550
Baltimore	605	21	243,800	2.5	5,221
<i>Metros with smaller populations than Pittsburgh</i>					
Buffalo	307	27	135,200	2.3	4,108
Indianapolis	368	21	134,600	2.7	4,350
<i>Metros with larger populations than Pittsburgh</i>					
Detroit	737	25	469,600	1.6	3,915
Philadelphia	1,202	22	552,200	2.2	5,855

Source: National Center for Charitable Statistics/Guidestar National Nonprofit Database, and the U.S. Bureau of the Census, 2000 Decennial Census.

Preschool and child care programs were especially reliant on fees with nearly three of every four dollars coming from clients. Of the 41 preschool providers that filed with the IRS in 2000, 24 received at least 90 percent of their revenue from clients. In contrast, emergency assistance groups are the least dependent on fee-for-service income. These groups include homeless and domestic violence shelters, food pantries, and services for abused and neglected children. Many of the clients who receive emergency assistance are able to pay only a small fee or nothing at all.

TABLE 2. Sources of Revenue in 2000 by Type of Nonprofit Human Service Provider in the Pittsburgh Metro Area

Type of Human Service	N	Average Percentage			
		Donations	Government	Client Fees	Other
Elder Services	59	17	21	4	19
Emergency Assistance	37	33	46	18	4
Family Services	21	25	25	36	14
Group Homes	20	11	39	44	6
Housing Assistance and CDOs ^a	115	20	33	39	8
Multipurpose Programs	92	25	31	33	12
Physical/Mental Health ^b	42	21	12	62	6
Preschools and Child Care	41	14	5	72	10
Work Readiness Programs	37	18	40	28	13
Youth and Teen Programs	28	30	22	31	16
All Human Service Nonprofits	492	21	28	40	11
All Nonprofits	2,173	26	14	32	28

Source: National Center for Charitable Statistics/Guidestar National Nonprofit Database.

Note: The number of cases (N) is reduced because information on sources of revenue is not available for EZ filers.

^a Community Development Organizations

^b Excludes hospitals

- **Reliance on client fees does not necessarily provide financial stability for nonprofit human service groups in the Pittsburgh region.**

Although client fees represented the single most important source of income for human service providers, groups that relied heavily on client fees were no more able to stave off large financial losses nor to post large gains than other groups.

- **Private philanthropy and government funding help provide financial stability to Pittsburgh’s human service sector.** Nonprofits that received the bulk of their revenues from charitable contributions were significantly more likely than others to operate in the black when controlling for other factors such as the size of the organization, type of service, and location. Government support also helps to mitigate financial losses. While private philanthropy and government funds tend to play lesser roles than fee income in supporting the human service sector in the Pittsburgh region, they provide an important underpinning for the financial health of the sector.
- **Human service organizations located in the city of Pittsburgh were significantly more likely to have experienced financial problems than groups in the suburbs.** Nonprofits located in the city of Pittsburgh were more likely to run operating deficits in 2000 than other groups, after controlling for the type of provider, size of the organization, net assets, and reliance on various sources of income. In fact, nonprofits in the city were twice as likely as groups in the remainder of Allegheny County and the outer suburbs to post losses of 10 percent or more.

- **Small and mid-sized human service groups were particularly vulnerable to budget swings.** The financial picture of human service providers tends to be mediated by the size of the organization. Small groups with revenues of less than \$100,000 and mid-sized groups with revenues between \$100,000 and \$2 million were more likely than larger organizations to experience either large gains of 20 percent or more or large losses of 10 percent or more. The acquisition (or loss) of just one large contract or charitable gift can create volatile swings in the budget of smaller organizations. Smaller groups also have significantly fewer net assets than larger groups, suggesting that net assets may provide some financial stability to organizations.
- **By 2000—one year before the high-flying economy tumbled—nonprofit human services in the Pittsburgh area were facing precarious times.**

- * Nearly 40 percent of these nonprofits ended the year with a negative balance sheet. Revenues fell short of expenses.
- * Human service providers had a 3 percent cushion in their budgets, that is, the share of total income remaining after expenses have been paid. This was less than half of what all nonprofits in the region reported. Human services had little room for operating errors.
- * More than four of every five dollars went to program expenses. On average, there appears to be little “fat” in the budget to trim.

* The average net assets of human service groups were almost four times smaller than those of the other nonprofits in the region. Given their modest assets, these groups can be financially vulnerable in economic downturns.

IMPLICATIONS

With the sector in flux, this is an opportune time to begin a public debate on the future of the nonprofit human service sector in the Pittsburgh area. At least three important questions emerge from these findings. First, can Pittsburgh's nonprofit human service sector do more for people in need? Other metropolitan areas appear to be investing more in their human service sectors. Second, what mix of funding will yield financial stability for human service providers? Fee-for-service income does not produce greater financial stability for human service organizations, and reliance on fee income raises a broader question of the purpose and mission of the charitable sector. Strong reliance on fee income is likely to hurt the neediest members of the community. Private philanthropy and government funding seem to provide the crucial underpinning for the financial health of the sector. Finally, can a consensus be built on how to strengthen and enhance the capacity of the human service sector? While some nonprofits may need to build their infrastructure, others might be encouraged to seek collaborations or even mergers or acquisitions. In essence, the sector must decide how to achieve a balance between enhancing the capacity of individual organizations and strengthening the sector as a whole.

The challenges faced by nonprofit human service groups in Pittsburgh and elsewhere have no quick and easy solutions, but the financial portrait presented in this report can serve to open dialogue, inform debate, and guide the development of public and private policies to strengthen this vital part of our communities.

Reference

Salamon, Lester M., David M. Altschuler, and Carol J. De Vita. 1987. *Pittsburgh Nonprofit Organizations: The Challenge of Retrenchment*. Washington, D.C.: The Urban Institute.

This TROPMAN REPORT is one of a series of briefing papers generated by The Tropman Fund for Nonprofit Research. TROPMAN REPORTS in this 2003 series are:

1. **The Precarious Billion Dollar Sector: *Nonprofit Human Services in the Pittsburgh Metropolitan Area***
2. *Strategic Restructuring: A Tool for Improving Organizational Effectiveness*
3. *Identifying Financing Opportunities for Pittsburgh-based Social Enterprises: Challenges and Opportunities for Capitalizing Entrepreneurial Ventures*
4. *Keeping Our Promise: The Use of Modern Quality Assurance in Nonprofit Management*
5. *The Challenge of Nonprofit Leadership: A Comparative Study of Nonprofit Executives in the Pittsburgh Region*
6. *When the Current Is Strong, Only the Big Fish Swim: The 2002 Wage & Benefit Survey of Southwestern PA Nonprofits*
7. *The Insurance Muddle: Addressing Healthcare Costs for Nonprofit Sector Employees*
8. *Diversity Within and Among Nonprofit Boards in Allegheny County, PA*

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