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# THE NONPROFIT SECTOR: An Economic and Community Asset

## 2008

TROP MAN REPORTS



VOLUME 7 : STUDY # 1

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The Forbes Funds was established in 1982 to provide emergency financial assistance to nonprofit organizations that were experiencing funding interruptions or short-term cash flow problems. Under the leadership of our founding director, Elmer J. Tropman, The Forbes Funds also provided management consultation to small nonprofit organizations and conducted regional research to identify unmet needs in the human service sector. The Forbes Funds provided an important service during a particularly turbulent time when many nonprofit organizations were struggling to adjust to a new domestic policy agenda as well as to significant changes in federal and state funding priorities and procedures.

By the late 1980s, while continuing to provide loan guarantees, we shifted our emphasis to long-term capacity-building in the nonprofit sector. During this time, The Forbes Funds focused on helping nonprofits improve administrative skills and infrastructure, with special emphasis on long-range planning and strategic management. Through our grantmaking, we helped

nonprofit organizations secure technical assistance to address such matters as strategic planning, financial management, and board governance.

Beginning in 1996, The Forbes Funds advanced efforts to support management capacity-building and strategic planning, while also addressing such sector-wide issues as inter-agency partnerships and mergers. Additionally, we provided support for local universities and colleges to train nonprofit staff and boards.

Beginning in 2001, The Forbes Funds embarked on an ambitious strategy to enhance the management capacity of the nonprofit sector, especially human service and community development organizations, through three complementary activities: grantmaking; applied research; and sector leadership activities.

Today, we support capacity-building initiatives for human service and community development agencies; fund research critical to responsive, innovative, and sound nonprofit management; and encourage and celebrate exemplary practices in the nonprofit sector.

# 2008

## TROP MAN REPORT

*Applied Research about the Pittsburgh Region's Nonprofit Sector*

### THE NONPROFIT SECTOR: *An Economic and Community Asset*

Sabina Deitrick, Ph.D., Christopher Briem, Kathryn Collins and Huiping Xie, Ph.D.

#### BACKGROUND

The nonprofit sector in the U.S. plays an increasingly critical role in our cities, regions, states and nation. Nonprofit organizations exist to improve the quality of life of all citizens. Some organizations provide food and shelter to needy families or job training and employment assistance. Others offer educational opportunities or enrich our cultural experience. Still others provide services for the elderly and infirm, and the list goes on. However, not only do nonprofit organizations fulfill diverse social missions to improve quality of life, these organizations collectively constitute a vital part of Pittsburgh's regional economy. Nonprofit organizations employ hundreds of thousands of people in the Pittsburgh region and generate millions of dollars of economic activity related to the services that they provide. At the same time, the nonprofit sector provides services for millions of people, saving governments and corporations from providing these services themselves.

Every day, nonprofit organizations make economic decisions that impact the lives of citizens living in southwestern Pennsylvania. Many of the questions that policymakers, government officials, businesses, and the public have about this impact can be readily quantified, including impact on other businesses, tax streams, and revenue generated. Some questions, while more difficult to quantify, can demonstrate the nonprofit sector's impact, including impact in addressing homelessness, hunger, poverty, crime and literacy.

The purpose of this report is to analyze and estimate the role of the nonprofit sector in the economy of the Pittsburgh region. To better understand this impact, The Forbes Funds commissioned the University Center for Social and Urban Research (UCSUR) at the

University of Pittsburgh to conduct this analysis. The research also seeks to identify a method to measure the Social Return on Investment of the activities of nonprofit organizations. By understanding and quantifying both the economic and social impacts of the nonprofit sector, organizations can better communicate the importance of their work to policymakers, government officials, businesses, and the public as a whole. Better communication and common understanding of the purpose, outcomes, expenses and overall contributions of the sector can result in more informed decisions and policies, and mutually beneficial relationships.

#### The Pittsburgh Region:

For this research, the Pittsburgh region is defined as the ten-county region below, unless otherwise stated.



TABLE 1. RESEARCH QUESTIONS		METHODOLOGY
<b>QUESTION 1</b>	What is the nonprofit sector?	Internal Revenue Service definition, secondary data from National Center for Charitable Statistics, data from the National Corporation for Public Service
<b>QUESTION 2</b>	What is the sector’s role in the economy?	Pittsburgh Regional Economic Model, Inc., data from U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, Department of Energy, Census Bureau and a literature review
<b>QUESTION 3</b>	What is the sector’s social impact?	Survey of Greater Pittsburgh Nonprofit Partnership members, literature review and analysis of a program at two agencies

## RESEARCH QUESTIONS

Three main research questions guide this effort to discern the nonprofit sector’s impact on the Pittsburgh regional economy and provide the sector with concrete information to guide policy and advocacy work. First, we define the sector as a whole, including its general purpose and structure. We describe the sector’s characteristics, both nationally and on a local level. Second, we review the critical impacts of the sector on the regional economy through a variety of measures, including employment, compensation, and taxes paid. Finally, we employ a method to measure part of the nonprofit sector’s social value in monetary terms. Two case studies are summarized as examples of organizations that provide more than anecdotal evidence of their value.<sup>1</sup> The paper concludes with recommendations and opportunities given the research findings. In today’s environment, the nonprofit sector can respond to calls for greater accountability by the public and funding communities by demonstrating impact in concrete ways.

## FINDINGS

### QUESTION 1: WHAT IS THE NONPROFIT SECTOR?

The nonprofit sector is defined by the Internal Revenue Service (IRS) as those organizations that receive a tax exemption from corporate income taxes for their charitable or religious work. The focus of this report is public charities, known as 501(c)(3) organizations in the tax code. More than 60 percent of all nonprofit organizations registered with the IRS are public charities<sup>2</sup>. The number of public charities in the

U.S. grew by 53 percent from 1995-2005<sup>3</sup>; clearly this is a growing sector. The missions of these organizations vary widely across many subsectors, including human services (providing for basic needs such as food, shelter, clothing, and safety), education, health care services, arts and culture, advocacy, environmental protection, community development, and many more.

**Nonprofit organizations serve a social mission; they exist to meet a societal need and to enhance quality of life.**

**The nonprofit sector is distinct from the corporate sector in that nonprofit organizations’ profits are not returned to shareholders or owners; instead, they are reinvested in the organization’s mission and the services they provide.**

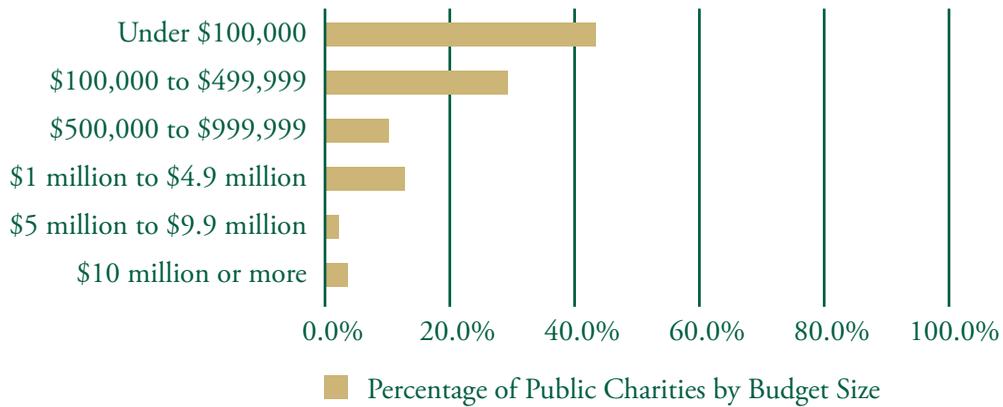
Collectively, nonprofits intersect with all facets of daily life from the institutions that care for and educate children to programs that provide food, care and friendship to seniors. Furthermore, they enhance the quality of our lives by acting as drivers, stewards and guardians of our cultural and recreational amenities. Clearly, regardless of the sector one works in, all are touched by the work of the nonprofit sector.

<sup>1</sup>Full case studies are available at The Forbes Funds ([www.forbesfunds.org/tropman/](http://www.forbesfunds.org/tropman/)).

<sup>2</sup>The Nonprofit Sector in Brief, 2008, The Urban Institute.

<sup>3</sup>The Nonprofit Sector in Brief, 2008, The Urban Institute.

**FIGURE 1. Number of Reporting Charities (Nonprofit Almanac in Brief, 2008)**



**National Characteristics**

In 2006, there were a total of 904,000 public charities in the United States. Nonprofit organizations across the United States reported total expenses of \$1.1 trillion and \$2 trillion in total assets in 2005, according to the National Center for Charitable Statistics. Figure 1 shows the number of reporting charities in 2005 by budget size. More than 80 percent of public charities are small organizations, with budgets below \$1 million annually.

Half of nonprofit organizations’ revenues came from fees for goods and services paid by private sources of revenue, including fee-for-service payments, tickets sales, and tuition payments. Government, or public sources, including Medicare and Medicaid payments, account for 20% of revenues. Private contributions from individuals, corporations and foundations account for 12.3% of nonprofit revenues. Other sources of revenue are outlined in Figure 2.

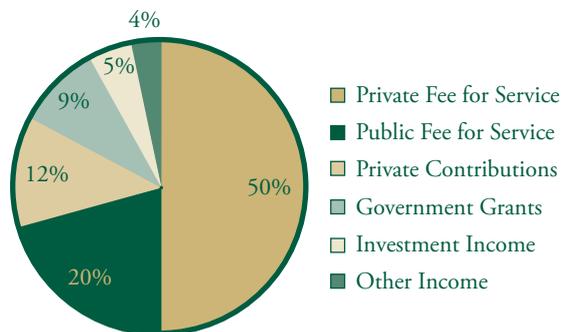
The nonprofit sector plays an important role in the civic life of Americans. Many Americans engage in charitable giving. Including estimates for donations from religious congregations, giving in the charitable sector reached \$295 billion in 2006, an increase of 10 percent in real terms over 2000 levels. Congregations and religious organizations (which are considered public charities) received nearly one-third of all charitable contributions, according to Giving USA. Americans are also engaged in volunteer service with nonprofit organizations. In 2006, 26.2 percent of American adults volunteered through a charitable organization giving an estimated 12 billion hours of time in service to nonprofit organizations across the country<sup>4</sup>. On an average day in 2006, about 6.5 percent of the population volunteered.

**Regional Characteristics**

In Pennsylvania, 36,068 organizations were registered as public charities in 2006. Of these, 16,135 organizations, or 45 percent, reported to the IRS. Organizations that report gross receipts of more than \$25,000 in a fiscal year are generally required to file a Form 990 with the IRS. All private foundations, regardless of their level of gross receipts, are required to file annually. The remaining 19,933 nonprofit organizations, or 55%, did not have to report to the IRS because of their small operating budgets.

There are 3,187 nonprofit organizations in the Pittsburgh region or about 11.1 nonprofits for every 10,000 residents. Most are small organizations; of the total number of nonprofit organizations, 55 percent, or 1,751 have total expenses of less than \$25,000 per year. Two-thirds have expenses less than \$100,000. It is important to note, though, that when factoring in larger nonprofit organizations, the typical organization in the region spends about \$463,000 annually.

**FIGURE 2. Sources of Revenue for Reporting Public Charities in the U.S., 2005 (National Center for Charitable Statistics)**



<sup>4</sup>The Nonprofit Sector in Brief, 2008, The Urban Institute.

**FIGURE 3. Percent of Organizations by Total Compensation Levels, 2006**

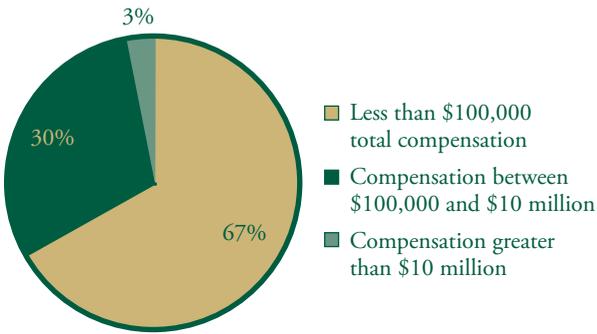


Figure 3 breaks down the sector in the region by amount of annual compensation.

In the Pittsburgh region, nearly 40 percent of nonprofit organizations are in education, human services and health. Table 2 lists other types of organizations serving the region.

Understanding the budget breakdown of organizations on a regional level is often difficult. The majority of data about the nonprofit sector is drawn from records from the Pennsylvania Department of State Bureau of Charitable statistics, which contains data from organizations across the state.

**TABLE 2. NUMBER OF TAX EXEMPT ORGANIZATIONS IN THE PITTSBURGH REGION, BY CATEGORY IN 2006**

CATEGORY	NUMBER OF ORGANIZATIONS	PERCENT OF TOTAL
Education	518	16.3%
Human services	391	12.3%
Health	342	10.7%
Arts, culture and humanities	290	9.1%
Recreation, sports, leisure, athletics	265	8.3%
Philanthropy, volunteerism, grant making	234	7.3%
Housing, shelter	161	5.1%
Community improvement, capacity building	161	5.1%
Religion-related, spiritual development	135	4.2%
Public safety	109	3.4%
Mental Health, Crisis Intervention	93	2.9%
Diseases, Disorders, Medical Disciplines	85	2.7%
Environmental Quality, Protection, and Beautification	68	2.1%
Employment, Job Related	56	1.8%
Youth Development	48	1.5%
Animal-Related	40	1.3%
Crime, Legal Related	34	1.1%
Public, Society Benefit - Multipurpose and Other	33	1.0%
International, Foreign Affairs, and National Security	32	1.0%
Science and Technology Research Institutes, Services	26	0.8%
Food, Agriculture, and Nutrition	18	0.6%
Civil Rights, Social Action, Advocacy	15	0.5%
Mutual/Membership Benefit Organizations, Other	14	0.4%
Medical Research	12	0.3%
Unknown	5	0.1%
Social Science Research Institutes, Services	2	0.1%
<b>Total</b>	<b>3,187</b>	<b>100.0%</b>

**TABLE 3. EMPLOYMENT IN THE NONPROFIT SECTOR,  
PITTSBURGH METROPOLITAN STATISTICAL REGION, 2004**

SECTOR	CITY	COUNTY	REGION
<b>Total employment</b>	<b>305,923</b>	<b>686,380</b>	<b>1,064,279</b>
Nonprofit Sector	74,274	109,175	148,104
Commercial Sector	202,190	506,371	797,968
Government Sector	29,459	70,834	118,207
<b>Share of total employment (percent)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Nonprofit	24.3	15.9	13.9
Commercial	66.1	73.8	75.0
Government	9.6	10.3	11.1

Source: Deitrick and Briem, 2008 from National Center on Charitable Statistics and Pennsylvania Department of Labor and Industry, 2004. These were the latest figures available on employment in the sector. Pittsburgh region is 7-county MSA.

According to the National Corporation for Public Service, 29.3% of adults in Pittsburgh volunteer; this is slightly higher than the national average. In 2006, over 600,000 volunteers contributed 73.2 million hours of volunteer service. This has an estimated economic impact of \$1.4 billion. Over one-third of Pittsburgh's volunteers serve religious organizations; another 27% serve educational organizations. Volunteers also serve social service, health, civic, sports/arts, and other organizations.

The nonprofit sector is large and diverse, serving the varied needs of communities across the region, and the country. Existing primarily to meet societal needs not met by the business and government sectors, the nonprofit sector has become a formidable economic resource as well. In the next section, we examine the economic role of the nonprofit sector in the Pittsburgh region.

#### **QUESTION 2: WHAT IS THE NONPROFIT SECTOR'S ROLE IN THE ECONOMY?**

Because of its tax exempt status, some may perceive the nonprofit sector as an economic deficit. Indeed, it is often difficult to clearly articulate the impact of the sector on the economy as a whole, never mind its impact on alleviating social problems. However, this and other views overlook the sizable impact the nonprofit sector has on our regional economy, not only in terms of employment and consumption of

goods and services, but also in providing a safety net to address social problems. This research estimates the role of the nonprofit sector in the regional economy through a number of indicators, mainly:

- The sector's contribution to employment and compensation.
- The sector's consumption of goods and services.
- The type of taxes paid by the nonprofit sector, both directly and indirectly.
- Forecasting the long term role of the sector in the regional economy.

Review of this data reveals that the nonprofit sector is, indeed, a significant economic asset.

The role of the sector in the economy is estimated using the Pittsburgh Regional Economic Model, Inc. (REMI), run under UCSUR. The Pittsburgh REMI model is a dynamic, multi-sector, regional econometric model developed specifically for the Pittsburgh region. The model is used to conduct economic impact analysis and perform long term forecasting of the region's population and economy for the 10-county region of Southwestern Pennsylvania. UCSUR uses the model in conjunction with several public and private agencies in the region for conducting economic impact and forecasting studies. The Pittsburgh REMI model uses empirically established relationships

between economic sectors to determine the response in the regional economy to changes in demand in the nonprofit sector. As one sector or industry expands or contracts, it produces secondary or induced changes in the economic output of other industries in the region.

**The Sector’s Contribution to Employment and Compensation**

The first measure of the economic role of the nonprofit sector is its size, particularly in terms of employment. In 2004, the nonprofit sector employed 148,104 people in the seven county metropolitan statistical region (Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland counties). Of these employees, 109,174 worked in Allegheny County. Employment in the nonprofit sector constitutes 14 percent of all employment in the region and almost 25 percent of employment in the City of Pittsburgh (see Table 3).

In 2006, nonprofit organizations in southwestern Pennsylvania paid their workers \$6.2 billion in compensation, comparable to the \$6.45 billion paid in compensation by the manufacturing sector in the Pittsburgh metropolitan statistical region. Compensation circulates in the regional economy, as employees pay taxes on their earnings, save for retirement, and buy local goods and services, thus multiplying the effects of their earnings locally.

Of this compensation, \$1.2 billion is generated by community organizations (not including major hospital systems and universities). Clearly, while the major hospitals and universities are a large part of the region’s nonprofit sector, community organizations themselves still play a significant role in the region’s economy. Table 4 outlines the breakdown of total compensation by type of nonprofit organization.

Recent trends show strong evidence that the nonprofit sector is growing in size and that it is expected to continue to grow into the future. Between 2002 and 2006, compensation in the region’s nonprofit sector increased by 8.5% in inflation adjusted dollars to \$6.2 billion in 2006, compared to an inflation adjusted growth rate of 2.9% for all sectors combined in the region. Total expenses paid by nonprofit organizations also show steady increases. In inflation-adjusted dollars, total expenses for the region’s nonprofit organizations increased from \$14.9 billion in 2002 to \$16.7 billion in 2006, representing an average annualized growth of 2.8% above the rate of inflation.

**The Sector’s Consumption of Goods and Services**

The second measure of the nonprofit sector’s role in the economy is its consumption of goods and services. Total economic activity includes direct effects of employment in the nonprofit sector plus indirect

TABLE 4. NONPROFIT TOTAL COMPENSATION IN THE PITTSBURGH REGION, BY NTEE CATEGORY, 2006			
CATEGORY	2006	PERCENT OF TOTAL	CUMULATIVE
Health	\$3,575,978,905	58	58
Education	1,410,694,513	23	81
Human services -- multipurpose, other	611,532,379	10	91
Mental health, crisis intervention	126,002,084	2	93
Arts, culture and humanities	90,525,932	2	95
Diseases, disorders, medical disciplines	69,226,165	1	96
Employment, job related	48,014,050	1	97
Community improvement, capacity building	43,652,048	1	98
Science and technology research institutes, services	40,506,725	1	99
Housing, shelter	29,840,139	1	100
<b>Total</b>	<b>\$6,199,336,275</b>	<b>100</b>	<b>100.0</b>

Source: National Center on Charitable Statistics, 2008.

**TABLE 5. TOTAL ORGANIZATION EXPENSES BY INDUSTRY GROUPS, 2006 (MILLIONS OF DOLLARS)**

INDUSTRY	ALLEGHENY COUNTY	10 COUNTY REGION
Hospitals	5,525,692	7,407,532
Educational Services	3,037,323	3,368,336
Ambulatory health care services	1,690,902	1,887,459
Membership associations, organizations	1,097,520	1,316,067
Social assistance	757,723	1,167,381
Nursing, residential care facilities	548,303	838,663
Professional, technical services	208,115	246,598
Performing arts, spectator sports	134,954	142,101
Museums et al.	103,036	111,179
Internet services, data processing, other	42,519	57,806
Broadcasting, except internet; Telecommunications	26,908	27,008
Amusement, gambling, recreation	22,018	32,987
Insurance carriers and related activities	16,810	16,869
Monetary authorities, et al.	4,380	4,380
Administrative, support services	2,448	32,237
Accommodation	2,349	2,697
Publishing, except internet	1,263	1,513
Agriculture	255	1,221
Motion picture, sound recording	39	210
Personal, laundry services	0	39
<b>Total</b>	<b>13,222,557</b>	<b>16,662,283</b>

and induced effects that nonprofit organizations generate in the regional economy. These effects include organizations purchasing additional goods and services. They also include the wages and other compensation paid to workers and the additional economic activity in other sectors and taxes for governments that are generated. In 2006, nonprofit organizations in the Pittsburgh region generated \$16.7 billion of expenses in the region, with \$13.2 billion in Allegheny County alone. (See Table 5).

In addition to generating expenses in other industries, the nonprofit sector has impacted employment in other parts of the economy as well. For example, nonprofit organizations hire professional service firms such as accountants, graphic designers and IT professionals. The nonprofit sector created an employment impact of 299,000 jobs in the regional economy in 2006, with 233,700 of those jobs in

Allegheny County. While the employment impacts are concentrated in the service sector, where most nonprofit organizations are categorized, there are significant impacts in other areas not generally considered to be part of the nonprofit sector, including trade, transportation, information and finance, and professional and technical service providers. Table 6 lists the employment impact of the sector on several different industries.

**In 2006, nonprofit Organizations  
in the Pittsburgh Region:**

- **Paid their workers \$6.2 billion in compensation in 2006;**
- **Generated \$16.7 billion of expenses in the region;**
- **Created an employment impact of 299,000 jobs.**

**TABLE 6. EMPLOYMENT IMPACT OF THE NONPROFIT SECTOR BY INDUSTRY, 2006 (THOUSANDS OF PEOPLE)**

MAJOR INDUSTRY GROUP <sup>5</sup>	ALLEGHENY COUNTY	10 COUNTY REGION
Services <sup>6</sup>	186.1	232.8
Retail and Wholesale Trade	16.0	23.1
Natural Resources, Mining, Utilities, Construction	12.5	17.9
Transportation, Information, Finance	10.6	12.5
Public Administration	7.3	11.7
Manufacturing	1.2	1.2
<b>Total</b>	<b>233.7</b>	<b>299.2</b>

The nonprofit sector not only has direct and indirect employment impacts across a variety of industries, but across a wide range of occupations, as well. Like industry, some occupations are traditionally employed in the nonprofit sector, such as healthcare or social service workers. However, the nonprofit sector has

impacts on many occupations not directly associated with the sector, including managers, financial analysts, engineering, computer science, food servers, and construction and transportation workers. Table 7 lists this employment impact by different occupation groups.

**TABLE 7. EMPLOYMENT IMPACT OF THE NONPROFIT SECTOR BY OCCUPATION, 2006 (THOUSANDS OF PEOPLE)**

MAJOR INDUSTRY GROUP <sup>7</sup>	ALLEGHENY COUNTY	10 COUNTY REGION
Healthcare	49.2	63.6
Sales, office, administrative	49.1	62.7
Education, training, library	28.1	32.6
Building, grounds, personal care, service	21.3	28.1
Management, business, financial	19.3	23.9
Food preparation, serving and related	13.6	18.5
Community, social service	10.3	13.8
Construction, extraction	9.4	13.3
Transportation, material moving	6.9	9.3
Computer, mathematics, architecture, engineering	5.8	6.8
Install, maintenance, repair	5.8	7.7
Arts, entertainment, sports, media	4.7	5.4
Production	3.9	5.1
Protective service	3.2	4.3
Life, physical, social science	1.9	2.2
Legal	1.0	1.2
<b>Total</b>	<b>233.5</b>	<b>298.5</b>

<sup>5</sup>Industry sectors and sub-sectors represent REMI model classifications

<sup>6</sup>Subsectors in the service industry include (1) professional and technical services, (2) management of companies and enterprises, (3) administrative services, (4) educational services, (5) healthcare and social assistance, (6) arts, entertainment and recreation, (7) accommodation and food services and (8) other services excluding government.

<sup>7</sup>Occupation categories represent REMI model classifications.

**TABLE 8. SUMMARY RESULTS FROM REMI MODEL IMPACT ANALYSIS, 2006**

ECONOMIC MEASURE	ALLEGHENY COUNTY	10 COUNTY REGION
Total employment	233,700	299,000
Gross regional product (\$ billions)	\$13.4	\$15.9
Personal income (\$ billions)	\$11.9	\$16.9

These interdependencies and the large size of the nonprofit sector result in a total of \$15.9 billion in gross regional product (GRP) in the Pittsburgh regional economy in 2006. GRP is a measure of local value-added economic production and is considered the best and most comprehensive measure of the economic activity. This also means that the total employment impact of the nonprofit sector across the Pittsburgh region is estimated to be 299,000 jobs in 2006 with a total impact on regional personal income of \$16.9 billion annually. Table 8 summarizes this data.

**Taxes Paid by the Nonprofit Sector**

While the nonprofit sector is categorized as “tax exempt” by the IRS, nonprofit organizations do pay local, state, and federal taxes. Types of taxes paid by nonprofit organizations include:

- Federal and state unemployment taxes
- Unrelated business income tax
- Payroll taxes (including local payroll taxes, Social Security, and Medicare)

Unrelated business taxes are paid for those activities that are a trade or business regularly carried on and are not substantially related to furthering the charitable mission of the organization. Examples of unrelated business might include social enterprises managed by nonprofit organizations.

It is important to remember that nonprofit employees across the region also pay the same taxes as employees in other sectors, including payroll taxes (Social Security, and Medicare) and individual withholding (state and local).

Other taxes paid vary both by location of the nonprofit organization and residence of the employee. For example, employees working in the City of Pittsburgh pay the Pittsburgh EMS tax. Also, in some localities, nonprofit organizations are required to pay real estate taxes and personal property taxes if they own

the land on which they operate. In any case, when examining the economic role of the nonprofit sector, it is important to remember the impact of the sector on local, state, and federal tax rolls.

**Projected Future Role in the Economy**

What does this mean for the future? The REMI model provides the estimate of the future economic role of the nonprofit sector on Southwestern Pennsylvania based on a projection of recent trends in the region. The industry and sub-region specific growth rates are presumed to continue through at least 2011. REMI model inputs are adjusted for the years 2006-2011 and are presumed to be stable in the following years.

The nonprofit sector will continue to play an important role in the Pittsburgh regional economy.

- The total impact of the nonprofit sector in the region on GRP is estimated to grow to \$18.9 billion in 2011 or 12% from 2006 levels in inflation-adjusted terms.
- The total employment impact of the nonprofit sector across the region is estimated to grow to 357,000 jobs in 2011, 19% above the 2006 level.

**REMI “Whole Economy” Impacts**

Impacts from spending or increased demand reverberate throughout the economy in many ways. The REMI model calculates those impacts:

- **Direct impacts** are the jobs in the nonprofit sector.
- **Indirect impacts** result when organizations buy supplies, rent space, and pay for other intermediate goods and services.
- **Induced impacts** result when employees in the nonprofit sector and those affected by indirect impacts spend their wages and earnings on other goods and services.

**TABLE 9. THE PROJECTED IMPACT OF THE NONPROFIT SECTOR, 2011**

ECONOMIC MEASURE	ALLEGHENY COUNTY	10 COUNTY REGION
Total employment	273,100	357,600
Gross regional product (\$ billions)	\$15.7	\$18.9
Personal income (\$ billions)	\$13.7	\$20.0

- The sector is expected to exhibit a continued and growing impact on areas of the economy outside traditional nonprofit service sectors and occupations.

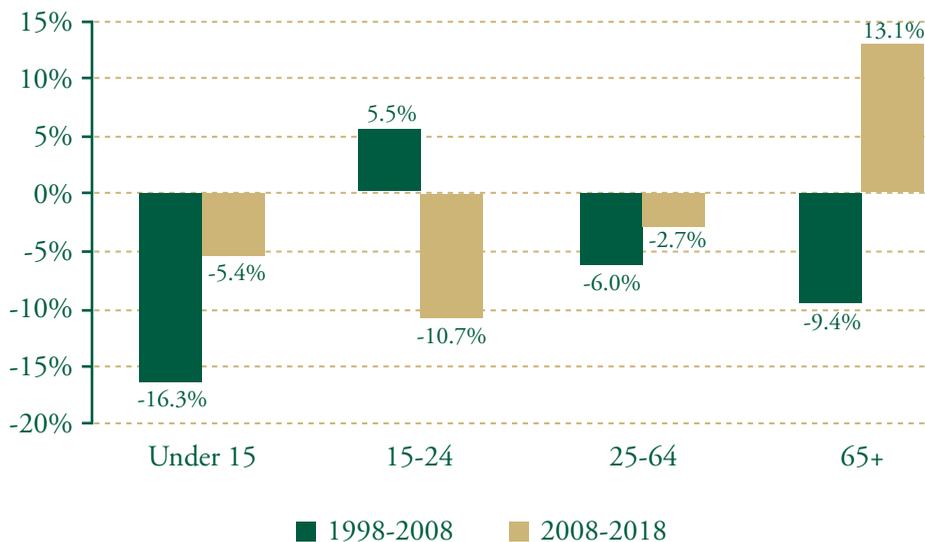
In addition to outlining the nonprofit sector’s role in the economy, the Pittsburgh REMI model provides a baseline forecast of the region’s population with details available for specific age, race and gender groups. This baseline forecast can be used to give a broad perspective on changes that could impact service demand for the region’s nonprofit organizations. Current population forecasts estimate that between 2008 and 2020, population in the region as a whole will remain relatively flat.

Despite minimal changes in total population, there will be significant changes in specific age cohorts over the coming years. First, for some age cohorts, past levels of growth or decline will be moderated into the near term future. This is particularly true for youth, which is projected to continue to decline in number, but at a lower rate than in the past decade. The

number of young people under age 15 is expected to decline by 5 percent in the next decade. Second, for certain age cohorts, past trends will be reversed altogether. Between 1998 and 2008, the elderly population in Allegheny County is estimated to have declined by 9.4%; however in the next decade, the cohort is projected to increase in number with the aging of the baby boomers. The forecasted growth for those age 65 and over in the coming decade, 2008-2018, is 13.1%. For organizations serving these two specific age groups, changes in the number of persons could significantly impact service plans or outreach efforts.

In order to understand the impact of future population changes, a “service demand index” was created from a survey of Greater Pittsburgh Nonprofit Partnership members asking about the age composition of the clients they serve. These figures were compared to the demographic composition of Allegheny County, the population base for most of these organizations, and weighted, bringing together both historical data and projections from 1990 through 2020. The “service

**FIGURE 4. Allegheny County Population Trends by Age Group**



demand index” is a composite measure showing how demographic factors can impact future trends in nonprofit sector service demand.

In the coming years, the number of youth in Allegheny County is projected to decline, while the number of seniors is projected to increase. This “senior effect” will exert a stronger force on this composite measure and as a result a very slight increase in the service demand population is projected.

The service demand index demonstrates that:

- Through 2020, on average, many nonprofit organizations will see a slight drop in demand for their services, particularly services targeted for children and youth.
- Despite demographic changes over the past decade, the nonprofit sector has shown growth in a number of areas. The cost of service delivery has increased, thereby increasing total expenses despite a decline in population.

As future impact is examined, it is important to recognize the safety net that is provided by the nonprofit sector. In times of economic downturn, the nonprofit sector provides services to citizens who lose their jobs, homes, and other sources of security. These services can take the form of affordable housing, food, child care, health care, job training, and others.

As the region and the nation face uncertain economic times, the nonprofit sector will no doubt play a role in helping families and communities cope.

In addition, the nonprofit sector is often a stable employer itself, as employment in the sector often grows to respond to increasing need as a result of economic downturn. Between 2002 and 2004, employment in the nonprofit sector in the Pittsburgh region increased slightly, by 0.3 percent, while employment dropped by 1.7 percent in the for-profit sector and 1.3 percent in the public sector. Similarly, between 2002 and 2006, many nonprofit organizations had compensation gains of greater than 20 percent. Despite future economic challenges, the nonprofit sector is likely to remain a stable employer.

When reviewed as it pertains to the size of the nonprofit sector, its interdependencies and interactions with the business sector, and the taxes paid by the sector the sector’s role in the economy becomes clear. Considering future population projections, as well as the sector’s historical reliance during economic troubles, the nonprofit sector will no doubt continue to play an important role in the region’s economy. However, when considering the importance and role of the nonprofit sector in our region, it is important to also consider the social impact of the sector. The final research question considers this impact.

**TABLE 10. QUESTION 2: WHAT IS THE NONPROFIT SECTOR’S ROLE IN THE ECONOMY?**

	<b>IMPACTS</b>	<b>MEASURES</b>
<b>1. EMPLOYMENT AND COMPENSATION</b>	The nonprofit sector is a multi-billion dollar sector with hundreds of different types of organizations. These organizations employ millions of people and generate billions of dollars in compensation.	Employment data; compensation data
<b>2. CONSUMPTION OF GOODS AND SERVICES</b>	Revenue generated in the nonprofit sector is being spent in other sectors as organizations and their employees consume goods and services.	Expenses and employment impacts by occupation and industry
<b>3. TAXES</b>	Both organizations and individual employees of the nonprofit sector pay local, state, and federal taxes.	Tax code and IRS regulations
<b>4. PROJECTED IMPACT</b>	The nonprofit sector exhibits modest growth through recessions, as it provides stable employment and increasingly needed services in times of economic downturn and turmoil. The sector will likely continue to grow to meet future need.	Resilience in past recessions; growth projections

TABLE 11. SROI METHODOLOGY

STAGE	ACTIVITY
BOUNDARIES	Defining the scope of work and determining what is being evaluated.
DATA COLLECTION	Utilizing document reviews, research and staff interviews to collect as much data as possible about the program. Two phases of data collection are often used to enhance validity and reliability of output.
STAKEHOLDER ANALYSIS	Analyzing which populations are impacted by the program.
IMPACT MAP	Plotting stakeholders, desired outcomes, and indicators to determine impact on each group.
ANALYSIS	Applying financial proxy measures for indicators and calculating economic value of each indicator. This includes comparing results to benchmark data assuming the program did not exist.
RESULTS AND SENSITIVITY ANALYSIS	Review assumptions and attributions (results that are shared by other programs or organizations) to determine concrete SROI figures.

### QUESTION 3: WHAT IS THE NONPROFIT SECTOR'S SOCIAL IMPACT?

Quantifying the economic role of the nonprofit sector is relatively straightforward. The role of the sector in the economy, however, is not the only variable to consider when understanding the value of the nonprofit sector in our region. It is important to also consider the social impact of organizations, also known as the Social Return on Investment (SROI) of the nonprofit sector. The emergence of organizations engaging in social entrepreneurship led to several efforts to evaluate these organizations' economic impact. An early effort by the Roberts Enterprise Development Fund (REDF), together with the Kaufmann Foundation, developed SROI as a means to measure social value in social enterprises. It followed the economic logic of return on investment, in applying a series of metrics to social value to net estimated benefits (returns) over costs, and calculate the SROI.

SROI recognizes that some of the social impacts of nonprofit organizations have quantifiable economic value; most social impact analyses follow some form of a cost-benefit approach to measuring program or organizational impacts. It examines the social, economic and environmental impacts arising from the organization's work, and attributes a value based upon common accounting and investment appraisal methods, in order to determine its financial value.

Several methodologies for measuring SROI have emerged since the REDF's first model. For this report, an SROI model adapted by the European Social Return on Investment Network (ESROIN) was selected.<sup>8</sup> Unlike earlier REDF methods, SROI today is a more streamlined and less time-intensive approach to measuring social impact.

The design and delivery of the SROI analysis involved a series of set stages, outlined in Table 11.

The above method is fairly complex, and varies from organization to organization and program to program. This complexity means that SROI is not widely measured in the sector as a whole. Two case studies of measuring SROI were created in an attempt to develop and test this method of measuring social impact. These case studies are summarized here.<sup>9</sup> The first case study outlines the Homemaker Program at Community Human Services, an established program. The second discusses the Youth Barista Program at The Union Project, a relatively new and evolving program. Understanding SROI can help an organization to review and refine service delivery, address issues of accountability and transparency, and more effectively communicate their impact to funders.

<sup>8</sup>The model was developed by European Social Return on Investment Network, with Communities Scotland and Scotland United, through New Economics Foundation (NEF, 2005, 2008).

<sup>9</sup>For full copies of each case study, please visit [www.forbesfunds.org/tropman/](http://www.forbesfunds.org/tropman/).

**Homemaker Program, Community Human Services**

Community Human Services (CHS) is a multi-service human service agency, focusing on youth, family, mental health, residential programs and homeless services. CHS grew out of needs and changes in the Oakland neighborhood of Pittsburgh, and today its programs extend throughout the city and county while retaining an emphasis on serving Oakland residents.

One of the many programs CHS offers is the in-home services, or Homemaker Program. The Homemaker Program provides care to residents with disabilities ages 18-59 who live in their own homes. Services include emergency-based personal care, on-going personal care, home help and caretaker relief. The program serves an average of 100 residents annually and has eight full-time employees and one part-time employee. The Homemaker Program is a part of a larger programmatic movement to help the elderly and people with disabilities remain in their own homes and communities to avoid institutional care. Generally, federal funding formulas have favored institutional care over community and home-based services. However, because of rising costs of institutional care and personal and community preference for people to remain in their own homes, efforts to shift the balance toward more community-based care have increased over the last decade.

The impacts of community-based, in home care have not been clearly demonstrated or communicated to decision makers, policy makers and the public. In order to demonstrate the impact of its Homemaker Program, CHS attempted to measure its SROI. Table 12 outlines the SROI evaluation of Homemaker Program, and highlights its estimated social impact.

The analysis of the impact map created through the case study showed that CHS’ Homemaker Program saves between \$1.48 to \$4.37 for every dollar spent. Each year, the Homemaker Program saves between \$451,426 and \$1,336,907 in costs for alternative programs. These savings are often directly passed on to the government and general public, who most often bear the costs of these programs.

The Homemaker Program has an outstanding history, documented success, and clear alternative programs with costs for comparable populations making it an excellent candidate for SROI analysis. However, not all programs are as established as the Homemaker Program. The second case study reviewed a relatively new program and attempted to conduct an analysis of its SROI.

**TABLE 12. SROI PROCESS FOR THE HOMEMAKER PROGRAM, COMMUNITY HUMAN SERVICES**

STAGE	ACTIVITY	
<b>BOUNDARIES</b>	The Homemaker Program has been consistently funded solely by the Allegheny Department of Human Services, making the evaluation of the social impact of the program an easier task, compared to those programs sponsored by a variety of funders.	
<b>DATA COLLECTION</b>	The first phase of data collection included documentation, analysis, and evaluation of similar programs to the Homemaker Program from books, articles, and reports from various government and non-government agencies. The second phase of data collection included interviews with staff from the CHS and document review of the Homemaker Program.	
<b>STAKEHOLDER ANALYSIS</b>	<b>Key Stakeholder</b>	<b>Desired Impacts</b>
	Participants/Clients	1. Ability to stay in their homes. 2. Have a clean, healthy and safe environment. 3. Can interpret their own needs better. 4. Reduced risks associated with isolation.
	Community Human Services	Sustaining program
	DHS (Human Services Development Fund)	Savings on not institutionalizing participants
Homemakers	Continued employment	

### Youth Barista Program, The Union Project

The Union Project is a nonprofit organization that seeks to create community by connecting neighbors and celebrating art and faith in a common space, the former Union Baptist Church in Pittsburgh. Since its inception in 2001, the Union Project has brought together over 4,000 volunteers contributing more than 40,000 hours of work on a host of projects and social missions.

The case study focused on the Youth Barista Program, a part of the Union Project's social enterprise in-house coffee shop, the EatUp Café. The Youth Barista Program works with youth between ages 18 and 21, who are "aging out" of the foster care system. "Aging out" marks the years when a foster child is too old for child welfare programs, but perhaps not ready for living independently as an adult. Research has shown that the transition between foster care and adulthood is recognized as a difficult and important period for young adults. This population is less educated, more likely to not have a high school diploma, is lower paid, experiences more material hardships than peer groups, and has significantly higher rates of involvement in the criminal justice system, from arrests to convictions, than their peers.<sup>10</sup>

The goals of the Youth Barista Program are to provide these youth with life and employment skills, particularly barista training that is useful in the food service industry. The Youth Barista Program operates on a September – August calendar, and began with 11 youth in the 2007-08 period. It offers 8 weeks of training, followed by a paid externship at a local coffee shop. The program expanded to 20 young people in 2008 and expects to enroll 40 youth in its next cycle. The Union Project partners with Allegheny County Department of Human Services, Starbucks and the Social Innovation Accelerator to recruit, train and employ the youth. Table 13 outlines some of the SROI analysis process for the Youth Barista Program.

Several financial indicators were used to measure the SROI of the Youth Barista Program. They were:

- Avoided cost of becoming idle youth (cost of alternative service provision; cost of staff/time supervising or caring the idle youth);
- Increases in future earning potential of participants;

- Value of skill training and personal development (the cost for similar skill training courses offered by other training centers or universities);
- Impact on the sustainability of the Union Project (increase in grant or in-kind support for the program and the Union Project; potential increase in income from youth working in the cafe).

The results of the Youth Barista Program can be seen as a success, even with a small number of participants and short tenure. The participant evaluations of the program were positive and indicated that they gained not only barista skills, but self-confidence and interpersonal skills. In addition, 7 of the original 11 participants finished the program, achieving a 64% completion rate. Of those seven, five, or 71%, are currently employed in the food and coffee industry and earning more than minimum wage. It is important to note that the other two participants recently gave birth and are unable to work while caring for their newborns.

In addition, earning and employability were analyzed. The hourly wages at Starbucks Coffee, an indirect stakeholder of the program, were compared with the current minimum wage to determine financial impacts for the participants. Not only do employees earn more at Starbucks (\$8.32/hour versus \$6.55/hour minimum wage), employees who work more than 20 hours a week also receive benefits. A person working 30 hours per week, for a full year, at wages comparable to Starbucks earns about \$2,700 per year more than a person earning minimum wage. With benefits, the person earns an additional \$6,719 per year, adding up to additional earnings of over \$20,000 over three years. The first group of graduates found jobs with comparable wages at Panera Bread, Einstein's Bagels, and TGI Fridays.

This SROI analysis revealed difficulties in measuring alternatives and creating financial proxies for the Youth Barista Program. First, these youth are generally understudied in social literature.<sup>11</sup> It is known that they face more hardship than their peers, but to what extent is not extensively measured. Finally, the pilot year included only 11 youth, which makes it more difficult to construct cost alternatives and determine and exact financial impact. However, our SROI model has created a framework for measuring impact that

<sup>10</sup>Courtney, M.E, Dworsky, A., Cusick, G.R., Havlicek, J., Perez, A., and Keller, T. (2007). Midwest Evaluation of Adult Functioning of Former Foster Youth: Outcomes at Age 21. Executive Summary. Chapin Hall Center for Children, University of Chicago, Chicago, December.

<sup>11</sup>Courtney, M.E. and Hughes Heuring, D. (2005). The Transition to Adulthood for Youth "Aging Out" of the Foster Care System, Chapter Two in D. W. Osgood, E.M. Foster, C. Flanagan, and G.R. Ruth (eds), *On Your Own Without A Net: The Transition to Adulthood for Vulnerable Populations*. Chicago: University of Chicago Press.

**TABLE 13. SROI PROCESS FOR THE YOUTH BARISTA PROGRAM, THE UNION PROJECT**

STAGE	ACTIVITY	
<b>BOUNDARIES</b>	The Youth Barista Program is a relatively new program at The Union Project and was chosen for analysis for the case study.	
<b>DATA COLLECTION</b>	Phase one research included review of participant records, performance evaluations, baseline and exit surveys and a document review of program plans, budgets, and proposals. Phase two of data collection included a survey of available literature about the participant population.	
<b>STAKEHOLDER ANALYSIS</b>	<b>Key Stakeholder</b>	<b>Desired Impacts</b>
	Participants	<ol style="list-style-type: none"> <li>1. Increased current and future earnings</li> <li>2. Increased employability</li> <li>3. Sustainable lifestyle</li> <li>4. Improved attitudes</li> </ol>
	The Union Project	<ol style="list-style-type: none"> <li>1. Sustaining the program</li> <li>2. Providing income source for other mission-related activities</li> </ol>
	Kitchens with Missions, the founding organization on which the Youth Barista Program is based	<ol style="list-style-type: none"> <li>1. Advanced organizational goals by expanding their program model</li> </ol>
	The Social Innovation Accelerator, a funder and partner of the Youth Barista Program	<ol style="list-style-type: none"> <li>1. Building a successful social venture</li> <li>2. Securing increased visibility for The Union Project and the Social Innovation Accelerator</li> </ol>
	Starbucks, which donates all of the equipment and coffee for the program	<ol style="list-style-type: none"> <li>1. Training potential employees</li> <li>2. Improved corporate social responsibility</li> <li>3. Enhanced community participation and image</li> </ol>
	Allegheny County Department of Human Services, which works directly with the participant population	<ol style="list-style-type: none"> <li>1. Improved outcomes for “idle youth”</li> </ol>

will be determined after several years of tracking and data collection. The Union Project received a grant to continue this program and extended it from eight weeks to seven months, and the program will grow to 20 participants the first year, and 30 the second year. As the program grows, the Union Project should consider conducting research about the long term impact of the program by tracking participants once they leave the program. This study could provide greater evidence of the program’s impact, and would contribute to existing knowledge about post-foster care youth to create more informed policy options for this population in the future.

**Future opportunities for measuring SROI**

There is no one clear, agreed-upon way to measure SROI and social impact. In fact, methodology for measuring impact depends closely on the organization

in question and its specific programs and outcomes. The goal of these two case studies is to present two different programs for which SROI measures might be helpful in evaluating effectiveness and gaining support for the programs. Additionally, The Forbes Funds wanted to pilot the SROI tool to determine its usefulness to the sector. Clearly, measuring social impact continues to be a challenge for the sector as there is not a universal methodology that will apply directly to every organization. Regardless, nonprofit organizations are encouraged to consider not only their economic impact, but social impact. Demonstrating and communicating both social and economic roles of nonprofit organizations can result in more informed decisions and policies regarding nonprofit organizations and better relationships between the sector and policymakers, government officials, businesses, and the public as a whole.

## CONCLUSIONS AND OPPORTUNITIES

The nonprofit sector is certainly a strong economic and social force in our region. Not only is the sector large and diverse, but it employs millions of people and contributes hundreds of millions of dollars to our region's economy, both directly and indirectly. Even more vital, though, is the role the nonprofit sector plays in providing social services and safety nets for residents of our region.

The nonprofit sector faces tremendous challenges, however. Challenges to the sector range from a lack of awareness regarding tax status to decreases in government support for social programs. Other challenges stem from concerns about possible decreases in charitable giving during the current economic crisis. At the same time, the economic crisis means increased demand for exactly the services that many nonprofits provide. The current economic crisis impacts many more families, causing them to seek services because of increases in foreclosures, unemployment, hunger, violence, and mental anguish. These are the populations that many nonprofit organizations engage.

This research presents several opportunities for the nonprofit sector to engage policymakers, government officials, businesses and the public in meeting these challenges. These opportunities include:

- Continue reporting data about organizations, and enhance data collection on the local level to provide a clear picture of the regional nonprofit sector and its impact.
- Clearly communicate the role that the nonprofit sector plays in the region's economy. Share this research with the general public and key decision-makers, particularly those responsible for decisions that directly impact the sector.
- Engage the general public and particularly volunteers with and donors to nonprofit organizations in sharing this information and becoming advocates for the nonprofit sector and its role in the region.

- Encourage organizations to measure Social Return on Investment. Communicate the value of enhanced understanding of social impact with foundations and other funding sources. Investigate other methodologies for measuring social impact that are applicable to different types of nonprofit organizations.
- Leverage this data in pursuing support and funding focused on assisting communities during this challenging economic time.

While the nonprofit sector is a vital part of our region's economy, it is also a major part of the region's cultural fabric. The nonprofit sector impacts all residents of southwestern Pennsylvania and improves the quality of life in the region. Recognizing and sharing the value of the nonprofit sector will enhance understanding and appreciation of its important role in making southwestern Pennsylvania a wonderful place to live and work.

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