

Community Connection

January 2007

A Profile of Nonprofit Organizations in Erie County, Pennsylvania

Carol J. De Vita, Ph.D. Center on Nonprofits and Philanthropy, The Urban Institute



The Erie
Community
Foundation

Helping today... Shaping tomorrow.

One in a series of publications designed to build and share knowledge on public issues in Erie County, Pennsylvania.

This series is a collaboration between The Erie Community Foundation and the Mercyhurst Civic Institute.

Dear Friends

The Erie Community Foundation works to improve our community in many ways. First, we make grants. In 2006, we made more than 1,200 grants totaling nearly \$8 million. These grants help a large number of nonprofit organizations serve their clients and accomplish their missions.


Next, we work with local donors to help them accomplish personal philanthropic and estate planning objectives in a cost-effective fashion. There are nearly 500 different named funds, nearly all permanently endowed, operating within The Erie Community Foundation. Each of these funds is accomplishing the donor's objectives. Together, their market value exceeds \$135 million, placing us in the top 10 percent of community foundations in the nation.

We also try to improve our community by sharing knowledge. Sometimes it's as simple as convening a meeting, finding an expert or making a connection. On other occasions, we build and share basic knowledge about issues facing our region and the role private philanthropy can play in enhancing our community.

In 2006, we commissioned The Urban Institute to conduct the region's first comprehensive study of Erie County's nonprofit sector. We believe this report will help nonprofits, policymakers and local donors. It will also influence and strengthen our competitive grantmaking program. We are happy to provide this executive summary and hope that it deepens your understanding of these important organizations.

We would like to thank Highmark Blue Cross Blue Shield for their partial support of this Urban Institute Study. This is the first of several reports we plan to publish this year. Your comments and reactions are always welcome.

Sincerely,



Michael L. Batchelor
President
The Erie Community Foundation



Nonprofit organizations are an integral part of local communities, providing a vast array of services, fostering civic participation and building social cohesion. They also are an economic force—providing jobs and buying and selling commodities and services. But these ubiquitous organizations are poorly understood and often overlooked in public discourse. Nonprofits today face serious challenges—a realignment of public priorities, homeland security issues, state and local budget shortfalls, and increasing competition for philanthropic dollars. As government retrenches, nonprofits are being called upon to do more to address community needs and tackle public policy issues. Yet little is known about the size, scope, and structure of the nonprofit sector and its capacity to expand its operations.

This report, commissioned by the Erie Community Foundation, is the first comprehensive study of Erie County's nonprofit sector. It gives residents the tools for understanding the basic size, scope and financial dimensions of the sector and provides a framework for understanding the trends and issues facing the sector.



The study was guided by four basic questions:

1. What is the overall size and scope of Erie's nonprofit sector and how does this compare with other counties of similar population size in Pennsylvania?
2. How are nonprofits distributed in the county and does this vary by type of service provided (e.g., health care, education, human services, etc.) and by location (e.g., within the Erie metropolitan area or outside it)?
3. How financially fit is the county's nonprofit sector and does financial well being vary by type of service provided?
4. What are the strengths and distinctive features of Erie's nonprofit sector?

Data for the study are from the National Center for Charitable Statistics (NCCS) at the Urban Institute and are based on the Forms 990 that nonprofits filed with the Internal Revenue Service (IRS) for the year 2005. Because of lags in data processing, 2005 data provide the most complete set of records for analysis.

Findings

Given its size, Erie County has an abundance of nonprofits and a substantial financial base.

In 2003, Erie County had 362 nonprofits—second only to Lehigh County (371) in terms of number of nonprofits. Erie also has a high density of nonprofits (12.8 nonprofits per 10,000 residents), higher than the national average (9.9). Financially, Erie reported \$1.2 billion in revenue and expenses in 2003, ranking second behind Lehigh with \$1.5 billion. These data suggest a rich history and deep roots for support of the nonprofit sector in Erie in addressing community need.

Human services and educational nonprofits are the most common types of nonprofit services in Erie County.

Human services account for nearly one in three nonprofits in the county, while educational nonprofits (i.e., K-12 schools, PTAs, and supportive programs) comprise about one in five. Hospitals and higher education make up less than five percent of nonprofits in the county. This pattern of services is typical for small counties in Pennsylvania.

Hospitals and health care dominate spending in Erie's nonprofit sector, followed by human services.

Although hospitals and health care represent only a small share of nonprofits, they account for the majority of nonprofit expenditures. Together, they spent \$650 million in 2003—or 56 percent of all nonprofit expenditures. Human service nonprofits also report considerable expenditures (\$288 million) or 24 percent of the sector's overall resources. Other nonprofits, those offering arts and culture, youth development, and educational programs, had much smaller shares of the financial pie—just one percent each.

The overwhelming majority of the nonprofit sector's resources are concentrated within the metropolitan area.

The resources of Erie's nonprofit sector are heavily skewed toward Erie's metropolitan area, leaving the remainder of the county with fewer agencies and less financial support to address their needs. The numbers are telling. Although roughly two-thirds (64 percent) of the county's population lives in the metro area, three-quarters (78 percent) of the nonprofits are located in the metro region. What is more, 95 percent of the revenue expenditures of the nonprofit sector are in the Erie metro area.

Nonprofits in Erie, especially hospitals, health care and human services, are extremely reliant on government as a source of revenue.

The vast majority of revenue supporting the nonprofit sector comes from government. For hospitals, health care and human services, more than

90 percent of their funding is from government grants, contracts and user fees, such as payments from Medicare and Medicaid. In contrast, the most important source of support for arts and cultural groups and youth development programs is private donations from corporations, foundations and individuals. Two of every five dollars come from private contributions.

Erie's nonprofit sector ended 2003 with a slim operating margin of 1.8 percent above the break-even point. Overall, nonprofits in Erie County operate on a fairly slim margin. Erie's nonprofit hospitals, health providers and human services reported the most financial vulnerability. Although most (54 percent) of the county's nonprofits ended the year with a positive operating margin, more than half of the arts groups and human service nonprofits reported deficits. The pervasiveness of the annual losses and the small operating margins suggest a sector that is vulnerable to economic shocks and policy shifts.

Nonprofit assets in Erie County totaled \$1.5 billion in 2003, but they are concentrated in nonprofits located in the Erie metro area and in a few industries. Almost 95 percent of the nonprofit assets in Erie County are located within the Erie metro area. The only notable exception is for educational programs (i.e., K-12 schools, PTAs, and supportive services), where less than half (43 percent) of the nonprofit assets are in the metro area. Although the non-urban areas held the lion's share of educational assets, the dollar value was very small compared to other industries. Educational nonprofits held just two percent of all assets in the county.



Implications

The sector's financial picture shows stark contrasts, largely reflecting the differences in industry size. Erie's nonprofit sector is divided between large industries (i.e., health care and human services) that hold the majority of financial resources and show signs of financial stress, and smaller industries (education, youth development, and the arts) that operate on a much smaller scale, but appear to be healthier financially. This pattern suggests the need for different policies and strategies to assist these different types of nonprofits and build the capacity of the sector.

Erie nonprofits' heavy reliance on government grants and contracts makes them very vulnerable to shifts in government priorities.

This situation seems to be fairly typical of smaller counties that lack access to wealthy corporate, foundation and individual donors. A similar pattern was uncovered in smaller counties in the Pittsburgh metropolitan area. Careful monitoring of federal and state policy developments will be crucial, given the sector's dependence on government as a source of financial support.

Erie's substantial assets are not likely to be a panacea for correcting financial difficulties for the sector or the community. Although Erie's nonprofit sector holds \$1.5 billion in assets, the form and liquidity of these assets could not be determined through this study. It is clear, however, that the majority of assets are held by three industries—health care, human services and higher education. Yet these are the same industries that seem to be most financially troubled. Policies aimed at tapping into the asset base of nonprofits would need to be carefully crafted to avoid weakening or undermining the financial base of this vital part of the community.

Despite the abundance of nonprofits, access to services may be difficult for residents in rural areas. Because of the concentration of nonprofit services in the Erie metro region, residents who reside in rural parts of the county may find it more difficult to access services. This problem may be particularly acute for older and frail residents. Because the study was not able to measure the extent of satellite office or mobile services, the extent of the problem is not known. However, through a series of town meetings, it would be possible to obtain this information, pinpoint gaps in service, and begin to craft incentives to fill these gaps.

In Conclusion

Strengthening Erie's nonprofit sector will require some targeted strategies to address the specific needs of both the larger and smaller components of the sector. A one-size-fits-all approach is likely to be inadequate. Building the capacity of Erie's nonprofit sector will take time, but the challenge can be met through community support and committed leadership.



The Erie Community Foundation

Helping today... Shaping tomorrow.

127 West Sixth Street
Erie, Pennsylvania 16501-1001
Phone: (814) 454-0843 • Fax: (814) 456-4965
www.eriecommunityfoundation.org

127 West Sixth Street
Erie, Pennsylvania 16501

Non-Profit Org.
U.S. Postage
PAID
Erie, PA 16501
Permit No. 636