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The Economic Scope and Impact of 501(c)3 Nonprofit Organizations in Northwest Minnesota

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and Economic Development

Seeking solutions for Greater Minnesota's future

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April 2004

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The author would like to express his appreciation to the Center for Research and Innovation, Bemidji State University, for their assistance in the preparation of this report.

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Abstract

A number of efforts have been made to quantify economic benefits of the state, national and international nonprofit sector by organizations such as the Minnesota Council of Nonprofits, the McKnight Foundation, Kauffman Foundation, and countless others. The objective of this research is to estimate the economic impact of nonprofit organizations in the northwest region of Minnesota and to contribute a unique perspective to the dialogue.

Most existing research regarding the economic impact of the nonprofit sector emphasizes one of two measures: (1) employment in nonprofit organizations, or (2) the contribution of nonprofit organizations to the public good. The employment measurement suggests that the nonprofit sector is valuable to the economy. However, to say that a number of people are employed in the non-profit sector does not mean that nonprofits generate additional economic activity that creates all these jobs. The social impact of nonprofits is the foremost contribution of nonprofit organizations, but is difficult and costly to measure.

This research takes as a given that nonprofits have a unique role in economic development; nonprofits provide unprofitable public services that support the vitality of communities. The thesis of this research is that in fulfilling this unique role, the nonprofit sector also provides economic impact. More specifically, this research quantifies the economic growth brought to a region by nonprofits securing external dollars through grants and contributions from outside the region. In short, the research demonstrates that the nonprofit sector generates significant economic impact: conservatively estimated at $322 per capita, or $831 per household. The policy relevance stems from the recognition that a vital nonprofit sector returns economic growth, in addition to public service, to rural regions.

Introduction

According to Lester M. Salamon, Ph.D. project director for the Nonprofit Employment Data Project at the Johns Hopkins Institute for Policy Studies,

> "…the nonprofit sector has been systematically overlooked in basic economic statistics…and while many people may be familiar with the work nonprofits do, they lose track of the fact that these are business entities that are providing jobs in communities and that this is one of the growing segments of the nation…these organizations are economic players."
>
> Valerie S. Lies, president and Chief Executive Officer of the Donors Forum of Chicago adds,
> "people know that nonprofit organizations contribute to the quality of life by providing health care, human services, counseling, and arts and culture. But what I don't think people recognize is that it's a major economic sector in all states. People always talk about businesses and how they employ people and contribute to the economy, but people generally don't think of the nonprofit sector in that same way."

This research examines the nonprofit sector from the perspective of rural economic development. Most existing research regarding the economic benefits of nonprofits emphasizes one of two measures. The first is the employment in nonprofit organizations, which is a familiar measure within the field of conventional economic development. However, to say that a number of people are employed in the non-profit sector does not mean that nonprofits generate additional economic activity that creates all these jobs. If people and institutions did not spend their money on nonprofit services, they would spend it in other ways that would also employ people in a regional economy.

The second measure of the impact of nonprofits is the social impact of nonprofits and their contribution to the public good. A new model developed by the Roberts Enterprise Development Fund and the Kauffman Foundation called Social Return on Investment (SROI) offers a series of metrics to quantify this social value similarly to for-profit ventures, in terms of ROI. While this is a desirable quantitative measure, it is an extensive evaluation process that would require a significant investment of resources.

Even without widespread evaluation of nonprofit ROI, most people associate the value of nonprofits with their social impact, as opposed to employment or economic impact. From a conventional economic development perspective, this social impact improves the quality of life of communities by addressing social problems, aiding residents in need, and providing cultural and recreational amenities. This indirectly impacts economic development by providing services to the workforce and their families, and making a community more attractive to workers and consumers, and thereby, businesses. What is unique about nonprofits is they provide public services that perhaps could be provided by government, but would not be provided by for-profits.

This research takes as a given that nonprofits have a unique role in economic development to provide unprofitable public services that support the vitality of communities. The thesis of this research is that in fulfilling this unique role, nonprofits also provide economic impact. More specifically, this research quantifies the economic impact to a region from nonprofits bringing in grants from outside the region. This is distinct from existing studies that simply count jobs or payroll dollars of nonprofit organizations without discerning economic impact. The policy implications stem from the recognition that a vital nonprofit sector returns economic growth, in addition to public service, to rural regions. Bolstering the grant-seeking prowess of local non-profits is the central goal of the policy recommendations in the conclusion.

Methodology

The region under study is the 12-counties of Northwest Minnesota. (See Figure 1.) This research involves analysis of existing datasets, a survey of nonprofits operating in northwest Minnesota, and modeling regional economic impact with IMPLAN ("impact analysis for planning"). The secondary data provides financial and employment data on nonprofit organizations in the region to demonstrate the economic scope of nonprofits in the regional economy. The survey elicits the grants received by nonprofits from outside the region, and provides the primary data to produce a conservative estimate of economic impact. Finally, the IMPLAN model is used to estimate supporting economic activity and wage re-spending that is part of the economic impact of grants from outside the region. IMPLAN also models the employment impact.

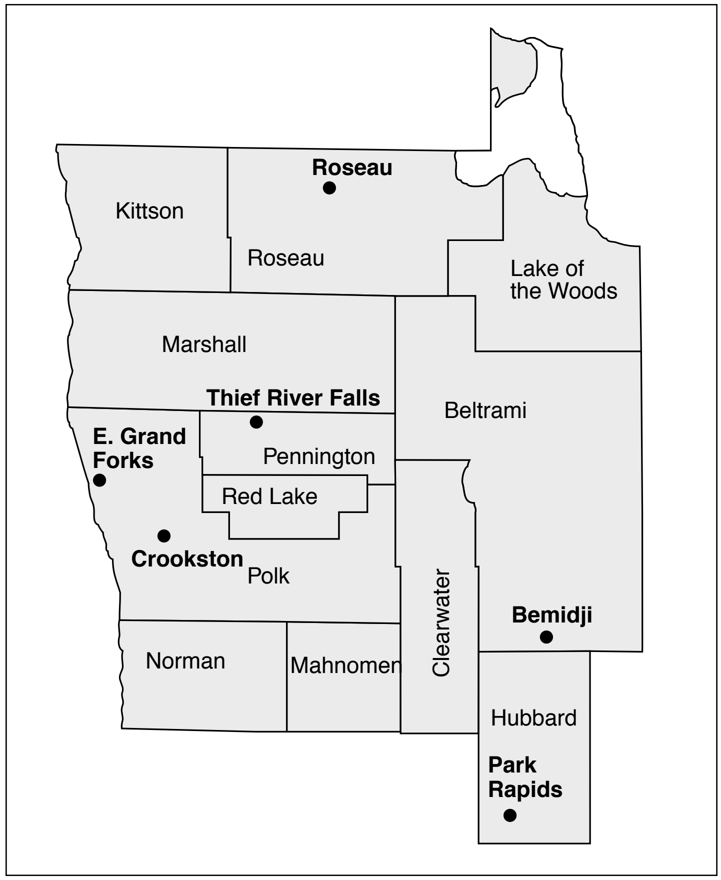


Figure 1: *Twelve-county Northwest Minnesota region.*

To begin, the nonprofits in the region were identified. By "nonprofits," we refer to organizations that have exemption from corporate income taxes under Section 501(c) of the federal tax code. (See the sidebar next page for a further description of these organizations. See Appendix A for further description of the national nonprofit sector.) A mailing list of all nonprofits in the region registered with Internal Revenue Service (IRS) with tax exempt status was purchased from Philanthropic Research, Incorporated. This is the study population. Philanthropic Research maintains a national database of U.S. nonprofits called Guidestar (www.guidestar.org) based on IRS Form 990 filings and the IRS Business Master File (BMF). Generally, nonprofits with more than $25,000 in gross revenue are required to file a Form 990. The BMF provides a list of nonprofits with under $25,000 gross revenue. Churches are not required to register with the IRS, but often choose to do so. The nonprofits included are predominately 501(c)(3) public charities and private foundations. However, nonprofit business membership organizations, veterans' organizations, and cemeteries are also included. From this list, 669 nonprofits are identified as operating in the region. Of these, 229 file IRS form 990 and 450 do not. There were nine 990 filers and 66 non-990 filers for which Guidestar did not have a valid address or that were no longer in operation.

For the nonprofits that file IRS Form 990, Guidestar provided select financial data. This database includes total revenue, total expenditures, total contributions, government grants, and a National Taxonomy of Exempt Entities (NTEE) classification of nonprofits by exempt purpose. Much of the analysis of the economic scope of nonprofits in the region utilizes these data, as well as employment and wage data from Minnesota Department of Employment and Economic Development (DEED) Covered Employment and Wages Program. Both of these secondary data sources are 2001 data.

In addition to analysis of these secondary data, this research includes a survey of the 669 nonprofits identified in the region. There are 144 survey respondents, for a response rate of 22 percent. It should be noted that this survey research is not a sample survey. Given the small study population and a limited budget for data collection, it was not feasible to use a sample survey design. (For example, for a simple random sample, approximately 235 responses are needed to generalize to the population of 669. With a 22 percent response rate, 1068 survey attempts would be needed to achieve this many responses. This is more than the survey population. In addition, there is great potential of bias from non-response.) Instead, the survey results presented are simply totals for survey respondents. This understates the economic impact because it only accounts for the impact of responding nonprofits. However, the strategy was to focus data collection effort on the nonprofits that are likely to have the greatest economic impact. The 450 nonprofits that do not file IRS form 990 (generally speaking, nonprofits with under $25,000 in revenue) received a mail survey with no additional follow up. Of these 450 non-990 filers, 75 responded to this mail survey, yielding an 18 percent response rate. In contrast, the generally larger nonprofits that file a Form 990 were contacted multiple times with a combination mail, telephone, fax, and email modes. Of the 219 IRS Form 990 filers in the study population, 69 responded, yielding a response rate of 32 percent.

A definition of "nonprofit"

- **Charitable nonprofit organizations**—501(c)(3)

  Public charities: Examples include groups with arts, charitable, educational, healthcare, religious, and scientific missions. The category encompasses art museums, community theaters, childcare centers, religious groups and institutions, United Way, and the American Red Cross.

  Private foundations: Typically, these entities receive assets from families, individuals, or corporations and devote a portion of their assets and investment earnings to support charitable causes.

- **Non-charitable nonprofit organizations**—501(c)(4). Examples include civic associations and business leagues, such as chambers of commerce; fraternal societies such as the Elks and Knights of Columbus; and state chartered credit unions and mutual insurance companies.

Moreover, 990 filers that receive the greatest revenues from contributions were targeted. As explained elsewhere in this report, nonprofit grants from outside the region are elicited by the survey because these grants (included in contributions) are a major source of economic impact. Concentrating data collection effort on nonprofits with the most contributions (reported on Form 990) enabled more of this impact to be uncovered. Survey respondents receive 74 percent of all contributions of 990 filers in the region. Thus, a large majority of total contributions in the region are accounted for by survey respondents. Likewise, among those 990 filers that receive government grants, 42 percent responded, and these respondents account for 76 percent of all government grant revenue of 990 filers in the region. Thus, we present the estimate of economic impact of grants from outside the region as a conservative estimate. It is unknown how much grant revenue received by survey non-responders is from outside the region, and generalizing survey responses to the population is unsound.

In order to estimate the supporting economic activity from the outside grants the IMPLAN model was employed. IMPLAN is a regional economic impact model that is considered most appropriate for small regions such as our study area. Originally developed in the late 1970s to conduct U.S. Forest Service land and resource management planning, the Minnesota IMPLAN Group (MIG) now develops county-level databases for the model. The analysis here is based on the 2000 IMPLAN database. IMPLAN is used to model the flow of expenditures through industries and institutions of the regional economy to quantify the overall economic and employment impact in the region.

Economic Scope of Nonprofit Organizations in Northwest Minnesota

The purpose of this section is to identify the economic activity in the nonprofit sector that is unique to nonprofits. Both nonprofit and for-profit organizations provide services. It is the services that would not be provided by for-profits, due to lack of profitability, that are unique to the nonprofit sector. For example, provision of human services, food and nutrition programs, mental health services, employment services, arts, culture, humanities, and many other charitable activities would not recoup their social value through service revenue. In contrast, revenue-generating services are, from an economic impact standpoint, similar to the activity of for-profit service businesses. This section shows that much of the nonprofit economic activity is associated with health services, and that these services are provided similarly to for-profit services – through fee-for-service revenue. To group health services along with other nonprofits significantly skews the picture of nonprofit economic activity. Thus, this section shows that health services can be excluded from subsequent discussion to illuminate the unique economic impact of nonprofits.

Employment, wage, and expenditure data provide a picture of the industry composition of northwest Minnesota nonprofits. Analysis of nonprofit revenues isolates the economic activity that is uniquely nonprofit.

Employment

According to the Minnesota Council of Nonprofits (MCN), "nonprofit organizations employ one of every 11 Minnesota workers—more people than work in construction, financial services or the hospitality industry" (Star Tribune, 2002). According to the Minnesota Department of Employment and Economic Development (DEED), employment in Minnesota nonprofit organizations is concentrated in the healthcare industry – 64 percent; social services – 14 percent; and education – 10 percent. Fifty-three percent of nonprofit employees work in the Twin Cities area with the remaining 47 percent working in other parts of the state.

In the twelve-county region of northwest Minnesota, there are 179 nonprofit organizations with at least one paid employee. 6,281 people are employed in these nonprofit organizations. (See Figure 2.) This is 9.6 percent of total regional employment – higher than the 9.1 percent statewide and 7.1 percent nationwide. (Independent Sector, 2001). Nonprofit employment in the region is concentrated by volume in healthcare and social assistance, while most of the remainder provides arts, cultural and education services.

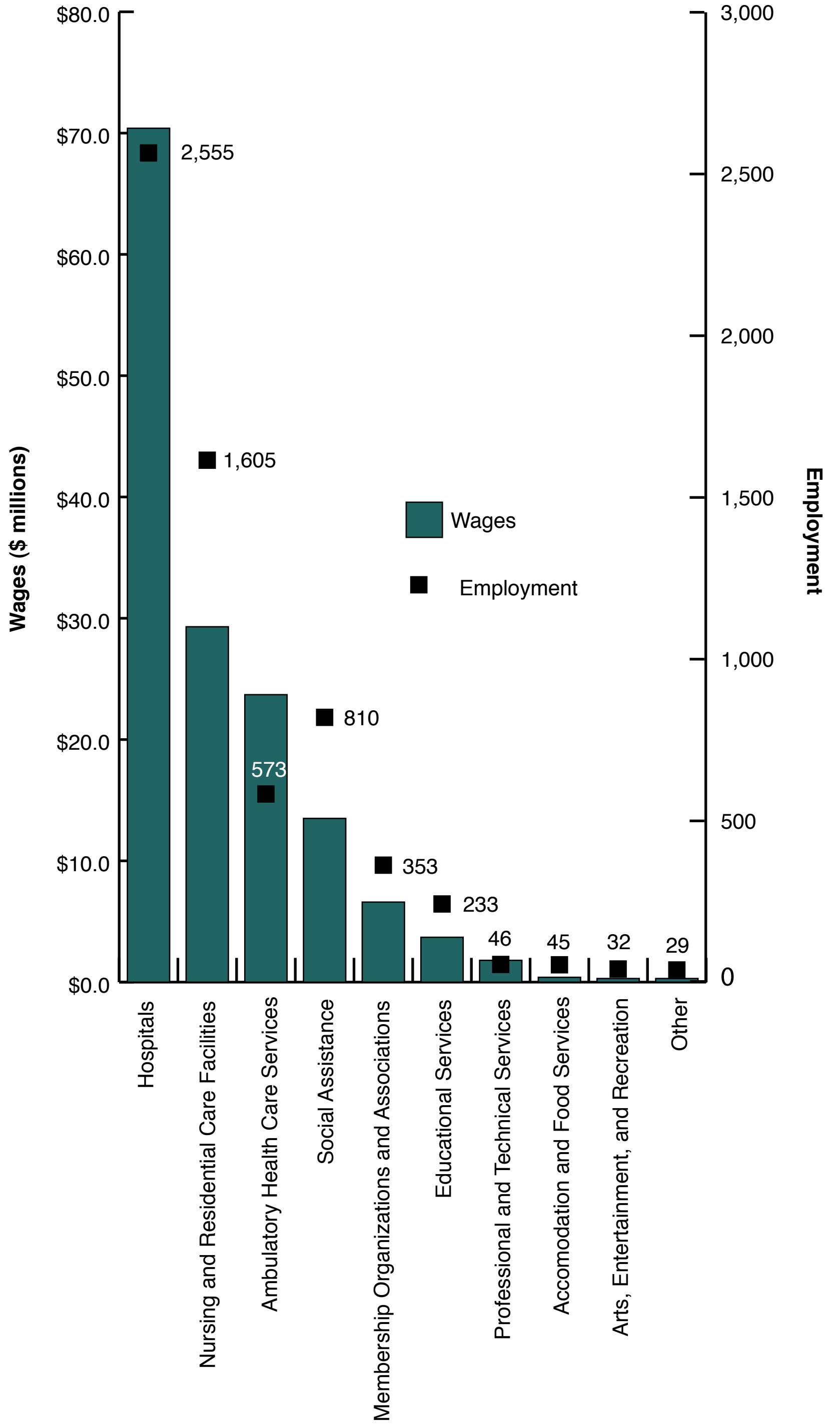
In terms of payroll, the total wages of Northwest Minnesota nonprofit organizations in 2001 are $150 million. This is 11 percent of total wages in the region. Figure 2 displays total payroll of nonprofits by industry. The dominance of hospitals within the nonprofit sector is even more pronounced in terms of wages due to the relatively higher average wages paid in this industry. The top three industry payrolls are healthcare industries, and these three comprise over 82 percent of the total wages paid by nonprofits in northwest Minnesota.

Table 1: *Total nonprofit expenditures in Northwest Minnesota by nonprofit category*

Category of Nonprofit*	Expenditures ($ Millions)**
Health	$161.1
Human Services	$39.6
Religious	$10.6
Employment	$9.1
Agriculture, Food, and Nutrition	$7.0
Arts, Culture, Humanities	$4.5
Mental Health	$4.1
Educational Institutions	$3.9
Philanthropy, Grantmaking	$3.6
Housing (Including Seniors)	$3.1
Environmental, Animal, Wildlife	$2.0
Sports and Recreation	$1.8
Community and Economic Development	$0.8
Other or Unknown	$0.6
Youth Development	$0.3
Small nonprofits and other non-990 filers	$3.5
Total	**$255.4**

* Based on National Taxonomy of Exempt Entities (NTEE) classifictions.
** Excludes expenditures of organizations with the sole purpose of fundraising to avoid double counting.
(Source: IRS Form 990 financial data from Guidestar database and survey.

Figure 2: *Nonprofit employment and wages in Northwest Minnesota by industry (Average for 2001)*



Source: Minnesota Department of Employment and Economic Development (DEED), Covered Employment and Wage Statistics (CEW) program.

Expenditures

In northwest Minnesota, nonprofits spent $255.4 million dollars in 2001. This estimate is based on expenditures of nonprofits that are required to file IRS Form 990 and expenditures of those nonprofits not required to file IRS Form 990 that responded to the survey used in this research.

As one would expect from the employment and wage data, expenditures are dominated by healthcare. Health activities claimed 63 percent of total expenditures nationwide as well (DeVita, 1997). Table 1 categorizes nonprofit annual expenditures by organization purpose according to the National Taxonomy of Exempt Entities (NTEE). To avoid double reporting, the northwest Minnesota expenditures listed in Table 1 exclude expenditures of funds collected for redistribution, for example, expenditures of federated giving programs such as the United Way provided to other nonprofits. Overall, Minnesota nonprofits spend 86 percent of outlays on programs, and 14 percent on management and fundraising (Star Tribune, 2002).

Nonprofit expenditures are dominated by Health services organizations, as are nonprofit wages. Yet, the following analysis of nonprofit financial data show drastic differences in the finances of healthcare versus other nonprofits.

Revenue

The total annual revenues of nonprofits in the region are very close to total expenditures; these organizations are nonprofit. However, where nonprofits get the revenue that is spent in the regional economy turns out to be important for economic impact. The bulk of revenues are "program services revenue," that is, payments for providing the services that

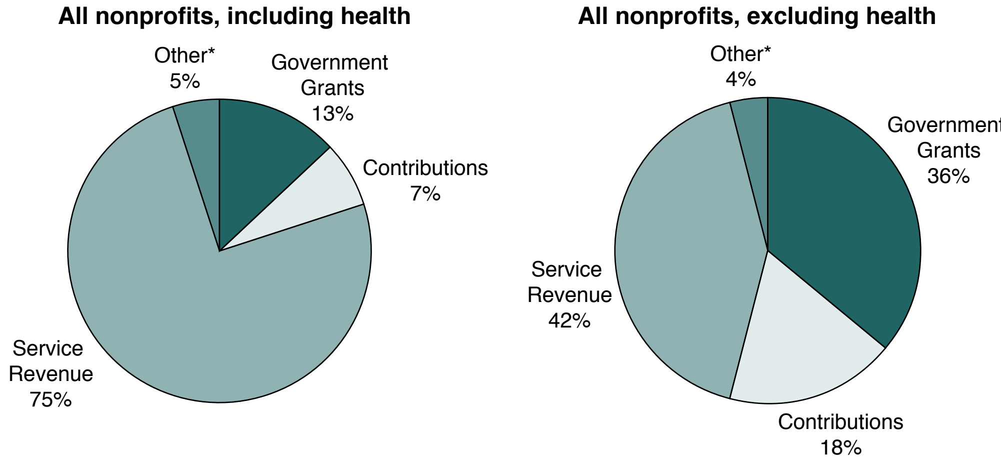
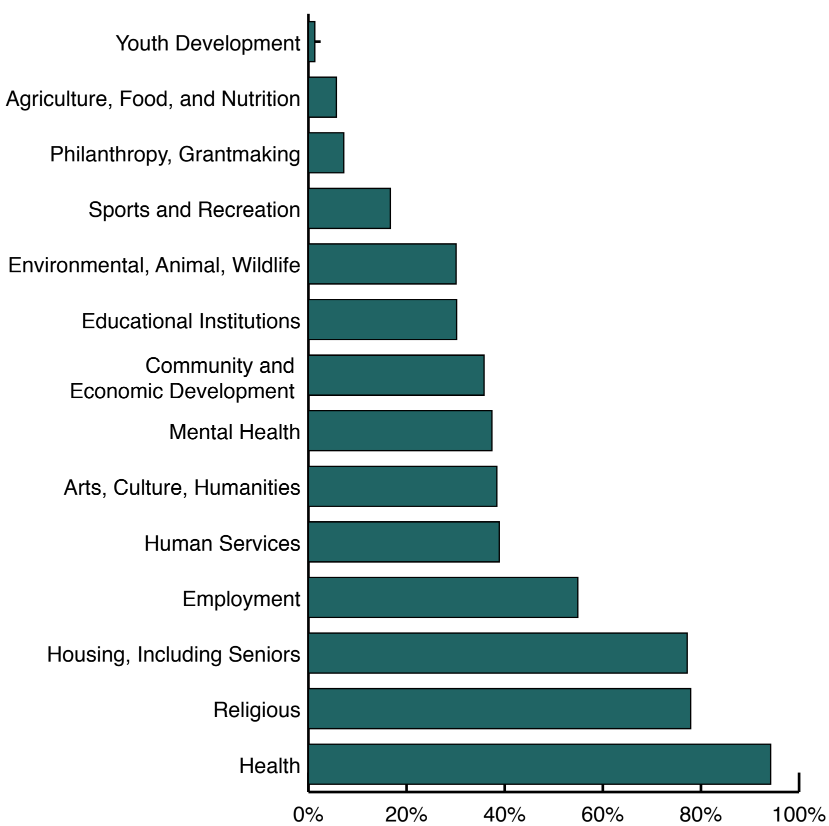


Figure 3: *Sources of Revenue (990 Filers)*

**Other revenue includes interest, investments, sales, and membership dues.*
Source: IRS Form 990 financial data from Guidestar database.

meet their nonprofit purpose. (See Figure 3.) The dominance of program services revenue is important for the economic scope of nonprofits because this economic activity is virtually equivalent to for-profit business in terms of economic impact. Those receiving a service pay for it, or a government contract pays for the provision of a service. From the revenue side, the main difference from the for-profit business sector is the grants and contributions received.

Figure 4: *Service Revenue Percentage by Nonprofit Classification (990 filers)*



Source: IRS Form 990 financial data from Guidestar database.

MCN finds striking differences in sources of revenue by size of nonprofits (in terms of total assets): Charitable nonprofits statewide get on average 73 percent of revenue through service fees, but nonprofits with assets less than $1million get a substantially larger percentage from contributions (34 percent). MCN concludes that smaller nonprofits rely more on grants and contributions, whereas larger nonprofits generate more service revenue. However, the percentage of total revenue that is service revenue varies even more by the class of nonprofit than by size. (See Figure 4.) Health nonprofits' service revenue is 94 percent of this class' total revenue in northwest Minnesota, and health services constitute 64 percent of all nonprofit revenue in the region. Thus, health nonprofits alone greatly influence the overall percentage of nonprofit service revenue. The classes of nonprofits with a small share of revenue from services rely mainly on grants and contributions, and, in the case of sports and recreation, special events revenue.

This discussion of the economic scope of nonprofits shows that a large portion of nonprofit economic activity is similar to for-profit enterprise. A service is provided for which consumers or a government contract pays. In fact, for-profit enterprises provide health services in northwest Minnesota. 68 percent of wages paid in Ambulatory Health Care Services (including doctors' offices and clinics) are paid by for-profits, and 37 percent of the wages paid in Nursing and Residential Care Facilities are for-profit payrolls (based on further analysis of DEED 2001 CEW statistics). Although 100 percent of non-government hospitals are nonprofit, as required by Minnesota law, other states have for-profit hospitals.

The major difference between for-profits and nonprofits is that expenditures that are not covered by service revenue are made up from other sources, mainly by contributions and grants, so that the nonprofits can continue to operate. This economic activity is unique to nonprofits. The next section explores the question of how these sources of revenue impact the regional economy. The above discussion of the scope of nonprofits suggests that an examination of the economic impact of health nonprofits would take a much different research direction. Thus, this research excludes health-related nonprofits.

Economic Impact of the Nonprofit Sector in Northwest Minnesota

In this section we examine the question: Are the grants, contributions, and other revenues raised by nonprofits merely transfers of funds in our regional economy, or is there a net economic impact? Although a complete estimation of the economic impact of these revenue sources is unavailable, this research quantifies a portion of the economic impact in the northwest region of Minnesota. For this research we concentrate on grants.

For the purposes of this discussion, a "grant" is defined as a financial contribution received from a funding entity. Grants come from local, regional, state, federal or international entities. Grants can come from individuals, businesses, philanthropic foundations or government programs. Nonprofit organizations, by virtue of their tax-exempt status, are uniquely eligible to receive such grants. Typically, applications for grant funds are made by nonprofit organizations in accordance with grant giving guidelines defined by a funding entity. For most nonprofit organizations, this effort is part of their overall fund development activity that provides financial resources for programs, special projects, operating funds, equipment needs and capital improvements or construction.

Nonprofit Sector Contribution to the Regional Economic Base

In the field of regional economics, positive economic impacts can be roughly described as "bringing new money into a region." The classic regional economics model expresses a positive economic impact in terms of increasing sales of goods and services outside the region. Clearly this brings outside money into the region. Such activity is described as the "economic base" of a region. The other economic activities are "non-basic," and are associated with recirculation of money already in the region. For example, if a manufacturer in the region sells to a company in, say, Spain, that sale has a positive economic impact on the region. However, in the case of a sale to a consumer within the region, there is no overall economic impact to the region because money already within the region is being spent. Increasing sales outside the region has economic impact because they increase the overall size, or base, of the regional economy.

The concept of economic impact can be applied to nonprofits as well. If a contribution is received from an individual within the region, the nonprofit's spending of this money is re-circulating money already in the regional economy. However, if a contribution is received from a federal government grant, the expenditure of the grant money has positive economic impact.

Here we examine the sources of nonprofit revenue from outside the region with an emphasis on grants and contributions. This is because grants and contributions are the second and third largest sources of revenue (behind

Table 2: Grant Revenue Reported by Survey Respondents

	$ Millions
Total government grants	**34.2**
Local government grants	2.3
State government grants	11.1
Federal government grant	20.7
Government grants from outside the region (state plus federal grants)	31.9
Private grants from outside the region	3.3
Total grants from outside region (government plus private)	**$35.2**

service revenue) and the information could be gleaned through survey research to identify whether these revenues come from within or outside the region.

This section also has a brief discussion of other sources of revenue from outside the region including attraction of tourists, as well as consideration of nonprofit payments to affiliate and membership organizations outside the region.

Government grants received by nonprofits in the region totaled roughly $42.7 million in 2001. State and federal government grants are assumed to be entirely revenue from outside the region.[1] Twenty-four percent of 990 filers receive government grants. It is unknown how many receive private grants from within the region, but 35 percent of 990 filer respondents receive private grants from outside the region. The survey asked respondents to specify the portion of an organization's total government grants that are local, state, and federal grants received by the surveyed nonprofit organizations. (See Table 2.)

The survey responses account for over 80 percent of known nonprofit government grant revenue, so the state plus federal survey responses provide a good estimate of the total government grants from outside the region. The survey results also include reports of private grants received by nonprofit organizations from funding agencies outside the region. This addition bumps the total identified grant revenue from outside the region to $35.2 million.

Economic Impact Analysis

The IMPLAN economic impact model was used to estimate the overall impact of the grant money brought in from outside the region. In addition to the direct economic impact of the outside grants, there are further impacts when this money flows through the regional economy. There is supporting economic activity spurred by the new grant funds as recipient organizations buy goods and services in the regional economy and those suppliers, in turn, buy goods and services. There is also re-spending of the wages and income received by individuals paid in providing this economic activity.

However, not all of the supporting economic activity is supplied by the regional economy. Nonprofits buy a portion of goods and services from outside the region that do not provide additional regional impact. Subsequently, suppliers to nonprofits purchase a portion of goods and services from outside the region as well. Also, those that receive wages and income from this economic activity re-spend a portion outside the regional economy. Thus, the overall impact can be expressed as a multiplier of the original grant amount. For example, a multiplier of 1.5 means that the supporting economic activity and re-spending is half as much as the original grant. The other half "leaked out" of the regional economy because it was not spent or re-spent on goods and services within the region.

The IMPLAN model provides estimates of how much of the supporting economic activity is supplied locally based on the characteristics of the regional economy. Multipliers are estimated within the IMPLAN model based on the industries where the original spending occurs and the structure of the regional economy. IMPLAN also estimates the multipliers associated with re-spending of wages and income in the local region based on household consumption patterns. The result is an estimate of the overall regional impact of an increase in direct

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[1] Although state and federal taxes are collected from the region, it is reasonable to assume that the grant-seeking activity of the nonprofits in the region does not have an incremental impact on state and federal taxation. In other words, if the nonprofits in the region did not seek grants, this would not change state and federal taxation in the region. This is consistent with standard practice in economic impact analysis.

Table 3: Regional Economic Impact of Grants from Outside the Region, 2001 ($ Thousands)

Nonprofit Classification	Allocation of Grants from Outside the Region	Regional Supporting Economic Activity	Regional Re-spending of Wages
Human Services	$22,892	$7,179	$5,164
Agriculture, Food, and Nutrition	$4,976	$269	$429
Mental Health	$2,610	$359	$431
Employment	$1,978	$564	$592
Educational Institutions	$1,082	$242	$298
Arts, Culture, Humanities	$918	$12	$8
Philanthropy, Grantmaking	$288	$30	$57
Community and Economic Development	$246	$6	$18
Youth Development	$97	$9	$4
Religious	$69	$29	$9
Other or Unknown	$38	$4	$8
Sports and Recreation	$5	$1	$1
Total	$35,200	$8,704	$7,019
Total Regional Impact			$50,923

Source: IRS Form 990 financial data from Guidestar database, Survey, and IMPLAN model of regional economy.

spending in the region from, in this case, grants from outside the region. (See Table 3.) Grants reported by survey respondents are allocated to the nonprofit classification based on the percentage of grants received by each class, and the closest industry classification was selected from the IMPLAN model to allow estimation of local purchases and multipliers.

To put this estimated $51 million impact into perspective in terms of the small region under study, this is about $322 per capita, or $831 per household (based on the 2000 Census). Additional perspective is provided by estimating the employment impact.

Employment Impact Analysis

A portion of direct spending of grant dollars from outside the region, supporting economic activity, and re-spending of wages goes to employ people. So, there is an employment impact associated with this economic impact. IMPLAN models the employment associated with economic impacts using the labor intensity of each industry in a region. IMPLAN applies ratios of employment per million dollars of industry output to each industry that increases output in the regional economy due to the outside grants. In this region, 636 employees are associated with the dollars the nonprofits receive from outside grants. In addition, other industries in the economy experience increased output from the supporting economic activity and re-spending of wages. IMPLAN uses employment-to-output ratios for each impacted industry to model associated employment. (See Table 4.)

IMPLAN estimates an additional 229 jobs are associated with the supporting economic activity and wage re-spending. However, applying this IMPLAN modeling based on employment ratios to estimate the direct nonprofit

Table 4: *Regional employment impact of grants from outside the region*

Direct Nonprofit Employment	Supporting Economic Activity Employment	Employment from Re-Spending Wages	Total Employment Impact
636	117	112	865

employment in grant recipient organizations assumes that the out-of-region grants result in employment in the same way as the rest of these organizations' budgets. The IMPLAN employment impact is presented to provide context on how the economy is affected by these outside grants. In summary, the $35 million in grants received from outside the region by nonprofits may well generate 865 additional jobs.

Additional Impact

Out of the 143 survey respondents in northwest Minnesota, 47 nonprofit organizations reported holding special events in the region such as sporting events, exhibits, or shows. The net revenue received by the nonprofits hosting these events is reported at $368,000. Although this net revenue accruing to nonprofits is small, these events have an economic impact on the region. The survey revealed that 12 of the nonprofits market their events outside the region, and these 12 constitute 59 percent of this revenue. No doubt, attendees from outside the region spend money at other establishments in the region. Although this research finds modest earnings by nonprofits hosting the events, the overall spending in the regional economy may be much larger. The sidebar provides national data on spending related to arts and culture tourism, and sports and recreational tourism may have similar impacts. However, quantifying this aspect of nonprofit organizations in the region is not further examined in the scope of this research.

The survey identified other sources of outside revenue, including fundraising activities and membership contributions paid by individuals and organizations from outside the region. Among the 143 survey respondents, this amounts to $407,000. It is also worth noting that the survey includes amounts paid to affiliates, organization memberships, and umbrella organizations outside the region. These payments amount to $644,000 reported by survey respondents. Thus, there is a small negative economic impact from nonprofit associations with other organizations outside the region.

Nonprofit organizations provide other services that return economic benefits in excess of their cost. This includes human services, healthcare, workforce development, public goods like recreation facilities, and any other services that provide a net economic benefit but would not be supplied by for-profit firms due to an inability to collect the full value of the services in the form of revenue to the for-profit firm. Although this may be the most significant route of economic impact, it is also the most difficult to quantify. The impact of the nonprofit sector must be measured in social, as well as economic values. The contribution of this research is to demonstrate that in providing these unique social impacts, nonprofits contribute economic impact as well.

> A 2001 survey found that "the majority of Americans who took trips of 50 miles or more in the past year say they included a cultural, arts, heritage or historic activity on their itineraries." In addition, 65 percent of American adult travelers or 92.7 million people planned at least one cultural activity for vacation time. Twenty-nine percent of travelers added extra time to their trip for culture. Travelers who include culture events on their trips are more likely than other travelers to have higher household incomes: $48,000 versus $37,000.
>
> "Cultural tourists vs. the average traveler:
>
> - Spend more money per trip ($614 vs. $415)
> - Take longer trips (4.7 days vs. 3.3 days)
> - Shop more (45 percent vs. 33 percent)
> - Stay in hotels, motels and bed & breakfasts (56 percent vs. 42 percent)"
>
> (Source: Travel Industry Association of America.)

Policy Implications

The most significant implication of this research is providing a unique perspective on the contribution of nonprofits to a region's economic development. Conventional wisdom recognizes that the social impacts of nonprofits indirectly contribute to economic development by improving the quality of life in communities. However, these social impacts are very difficult to quantify. Thus, in an evaluation of the costs and benefits of nonprofit services, the costs are salient while the benefits are elusive. The imperative of business development and good-paying jobs in rural Minnesota can cause these elusive benefits to lose stature. One may feel that we cannot afford to be charitable because that devotes our region's resources away from business development. This sentiment might be identified with the recent shift in focus of Minnesota's largest rural-based foundation, that is, the Blandin Foundation, to a "singular concentration on economic development." (Star Tribune, 2003) While we fully agree with Blandin's new focus, it is important to recognize the economic development role of nonprofit activities.

This research demonstrates that nonprofit organizations contribute an economic impact in addition to the social value of their services. And, we are not just talking about healthcare; in fact, health nonprofits are excluded from this conservative impact estimation. Thus, this research raises awareness of nonprofit's economic development relevance. In effect, the unique economic activities of nonprofits contribute to a regional economy in a way very similar to infrastructure investments. There is an initial impact when a project brings in outside funding, then a long-term contribution to the business environment. While the long-term contribution is the most important, the results of this research necessitate the focus of policy implications on where the most identifiable impact has been demonstrated, that is, the ability of nonprofits to garner grant funds external to their service region.

The economic impact of the external grants received by nonprofit organizations has been demonstrated. Grants also provide an impetus for innovation, collaboration, and expansion of nonprofit services that improve communities. Yet, only 24 percent of nonprofits that file IRS form 990 in northwest Minnesota reported receiving government grants in 2001. This might further indicate that investment in the growth and development of nonprofits, specifically in the area of pursuing and succeeding in gaining grant funds, would improve the accomplishments of nonprofits, as well as providing an economic boost to the region.

Nonprofit organizations in this region face a number of struggles, as many do nationwide, including local and state budget cuts, staff shortages, insufficient professional development opportunities, leadership and volunteer shortages and increased competition for individual and corporate donations. The pursuit of grant funds is a luxury that few can afford. Grant applications require significant investment of time and expertise, as well as require an organization to think ahead to new ideas and to develop materials that present the organization's funding case to a potential funder. A single federal grant application, while having the potential to garner hundreds of thousands of dollars, takes roughly 100 hours to complete. And that estimation presupposes a certain amount of expertise. For many nonprofit organizations, existing resources are needed to conduct the business at hand and to provide the services already in place. Many also do not have skilled grant writers available to them, nor could afford the cost of independent consultants.

Ironically, while nonprofit organizations are uniquely qualified to receive grants, grant funds are rarely available to support the infrastructure of an organization, and grants for the enhancement of grant writing efforts are unheard of.

What is needed is an economic development investment into a pool of grant writing expertise and making it accessible by nonprofit organizations. Other methods might include funded training dollars for nonprofit staff, or the availability of payroll funds specifically designed for assisting in the cost of grant writing staff or consultants. Perhaps the most promising approach would be similar to a Small Business Development Center. Just as for-profit businesses receive business counseling, training and technical assistance without charge, providing such services to nonprofit enterprises would reap similar economic development results.

Recommendations for Further Research

This research contributes an economic development perspective to the issue of nonprofit impact. Limiting the scope to a small region and concentrating on outside grants was expedient in demonstrating this approach. However, it would be useful to garner a more complete picture of a quantified social and economic impact of the nonprofit sector to identify potential winning investments in nonprofit ventures. It is recommended that these next research steps be considered.

Social Return on Investment

As mentioned, much of the impact of nonprofits is not readily quantified. The Roberts Foundation Enterprise Development Fund (REDF) has developed an innovative model that calculates the social return on investment (SROI) into monetary and economic terms. The initial model design is for use at a micro level, providing a detailed set of six metrics to measure the specific values of a single nonprofit organization. These metrics include quantification of an organization's:

- Enterprise Value
- Social Purpose Value
- Blended Value
- Enterprise Index of Return
- Social Purpose Index of Return
- Blended Index of Return

This model presents an approach to analyzing SROI as a balanced and effective way to understand the connection between funds investment in nonprofit organizations and the results those organizations achieve. REDF's SROI metrics measure the value created by a social purpose enterprise—defined as public sector costs savings and new tax revenue generated for society.

REDF is piloting the implementation of this model in small settings and has demonstrated a willingness to partner with organizations or entities that are seeking to better understand SROI. Consideration should be given to such a partnership with the purpose of including economic impact in SROI and to determine the feasibility of applying the SROI model to a group of nonprofits within a defined economic region.

Special Events Analysis

This research, and that of various advocacy groups, indicates that there may be significant economic impact from the special events and tourist attractions generated by nonprofit organizations. Museums and arts organizations cite the large numbers of visitors that come to a community for a particular exhibit or festival. Healthcare facilities, youth serving organizations, sports and recreation groups, and others assert similar claims. Yet, the process of reliably quantifying such claims would require a research process dedicated to that purpose. It is recommended that such research be conducted to evaluate the economic benefits of investments in such activities.

Statewide Application

The focus of the research herein has been the twelve county region of northwest Minnesota. Given the impact identified on this scale, it is recommended that the research be expanded to further gauge the economic impact of the nonprofit sector within the state of Minnesota. The analysis of grant activity in particular is especially of interest at a state level, considering that many of the federal grant dollars received by local and regional nonprofit groups are disbursements that are administered at a state agency level. Therefore, the success of a regional nonprofit organization in the receipt of federal grants impacts the state economy, as well as the local or regional economy.

Conclusion

It is generally recognized that nonprofit organizations are key to the quality of life enjoyed by people who live, work and visit rural Minnesota communities. Nonprofits provide access to arts and culture, education and healthcare facilities—long considered the key factors enabling employers to attract and retain higher skilled employees. Nonprofit organizations provide a social conscience for communities, often acting as rallying point for community members; nonprofit organizations restore and renovate historic buildings, preserve the cultural heritage, nurture the health and well-being of families, beautify neighborhoods, mentor youth, empower people in need to become independent, and develop new models for community and economic development. Nonprofits have set the standard for collaboration, public/private partnerships, community building and sustaining quality of life in the truest Minnesota tradition.

From a conventional economic development perspective, the nonprofit sector is similar to retail shops, restaurants, or even infrastructure. These do not bring in great amounts of sales revenues from outside a commuting distance region, and are thereby not an economic engine of a regional economy like manufacturing. Nor do they create wealth like research and development or tapping new markets. However, they do provide services and amenities to a region's people and businesses in support of these economic engines.

The results of this research provide sufficient cause to assert that nonprofits contribute economic impact, in addition to contributions to quality of life. Nonprofit organizations are creditable, viable and valuable contributing partners to the region's economy. It is in our best interests to enhance the capabilities of nonprofits and the entities that support them.

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Appendix A: The Nonprofit Sector

Section 501(c) of the federal tax code specifies the requirements for classification as a nonprofit organization. Groups that have obtained nonprofit status are exempt from corporate income taxes. Several kinds of groups are included under the nonprofit rubric; there are two major divisions: charitable nonprofit organizations and noncharitable nonprofit organizations.

Charitable organizations (clustered under section 501(c)(3) of the tax code) are further divided into two categories: public charities and private foundations. According to the Internal Revenue Service (IRS), the express purpose of a 501(c)(3) organization must be to benefit the entire community or society. Furthermore, a group's articles of incorporation must limit the organization to one or more exempt purposes, must not empower the organization to engage in activities not directly related to its exempt purpose, and must provide that the organization, upon its dissolution, must distribute its assets to another 501(c)(3) organization.

Most public charities listed with the IRS meet the "public support test," meaning that at least one-third of their revenues are donations received from the public. The remaining organizations have obtained public charity status because they are educational institutions, medical care providers, religious organizations, or fundraising auxiliaries that support other public charities. Donations to charitable nonprofit organizations, subject to certain limits, may be deducted from an individual's federal income tax return.

Most noncharitable nonprofit entities fall into 501(c)(4) status. These groups are also exempt from federal taxation, but because they receive much of their funding from members as opposed to the general public, are allowed to serve a focused community, and may engage in substantial lobbying. Their donors are not permitted to deduct contributions from their federal taxes.

There are over one million charitable nonprofit organizations in the U.S. (Independent Sector, 2003); they include social welfare organizations, social and recreational clubs, employee pension funds, religious organizations, business leagues and credit unions. Together, the nonprofit sector contributes $7.2 trillion to the gross domestic product (GDP) (American Society of Association Executives, 2003).

These diverse organizations are all nonprofits, but only about half (600,000 in 1994) had charitable, tax-exempt status under Section 501(c)(3) of the IRS Code. Between 1989 and 1994, the number of public charities reporting to the IRS grew by 6.3 percent annually, compared with national population growth of 1.1 percent (DeVita, 1997).

Human services organizations are the most common type of public charity but account for only about 1/10th of expenditures. Nationally, more than one in three public charities (37 percent) is a human services organization. Others include health (18 percent), education (14 percent), and arts and culture (11 percent). Health activities claimed the majority of total expenses nationwide (63 percent) (DeVita, 1997).

"IRS data do not fully reflect the enormous scope of the sector, however. Small organizations with gross receipts under $25,000 and most religious organizations are not required to apply for tax-exempt status, and organizations with gross receipts of less than $25,000 do not have to file yearly information returns. Financial data are available for only one-third of the 501(c)(3) organizations registered with the IRS. Despite these limitations, the organizations in the IRS database represent larger nonprofits and account for roughly 98 percent of the total revenues, assets, and expenses of public charities" (DeVita, 1997). Nationwide, nonprofit organizations own a total of $24.5 billion in assets and expend roughly $7.5 billion in payroll.

Research shows that states with small populations tend to have the highest density of public charities" (DeVita, 1997) and it follows that Minnesota hosts 5,400 nonprofit organizations, recorded through the filing of IRS Form 990.

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