

# THE NONPROFIT PARTNERSHIP

## THE SIZE AND HEALTH OF THE NONPROFIT SECTOR IN ERIE COUNTY

### *Erie Nonprofits Growth Masks Underlying Weakness Nonprofit Reality Check*

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#### Doing Well, But at a Cost

In its annual look at the size and health of the nonprofit sector in Erie County, The Nonprofit Partnership (NPP) has found surprising strength and resiliency but also signs of weakness that point to the need for continuing investment. Overall, 65% of the members of The Nonprofit Partnership showed a financial surplus in 2014, a 3% increase over the previous year and a 20% increase over 2012. This compares very favorably with nonprofits across the nation, only 47% of whom posted surpluses in 2014 according to the “State of the Sector” survey conducted by the Nonprofit Finance Fund.

Even though almost two-thirds of nonprofits across the county were in the black last year, only 47% of them increased their revenues over the previous year, a fact which uncovers the uncomfortable reality that many nonprofits are finding their way to profitability by cutting expenses, most likely in management and fundraising areas, which points to potential weakness, vulnerabilities, and missed opportunities in the future as existing management staff stretch, and sometimes fail, to cover all bases. This “failure to thrive” in the management area also shows up in NPP’s examination of its members’ websites. On a 13 point rating scale which assesses how current, appealing, and user-friendly the website is, more organizations lost ground this year because of outdated content, broken links, and inconsistent branding, a sign that websites are not tended to regularly by management. In spite of this ominous trend, the general quality of nonprofit websites in Erie County is high – 59% of them were rated good or excellent this year compared to 55% last year.

Another trend noticed in previous years that we saw again in 2014 was the trend toward big surpluses and big deficits. A decade ago, the average margin in Erie County was just 1%. Last year, 51% of the 200 organizations analyzed had surpluses or deficits of more than 10% of revenues.

#### Which Sectors Are Strong, Which Are Weak?

Education is the nonprofit sector that did the best overall in 2014 as 77% of education organizations – from higher education down to early care and education- showed a surplus. Three out of four of these organizations also grew their revenues as compared to the previous

year, and 63% improved their financial condition either by growing their surplus, reducing their deficit, or turning a prior year deficit into a surplus.

Conversely, Arts, Culture, and Heritage organizations are struggling the most overall, as only 46% of them showed surpluses, the only local sector below 50% and below the national average. While 57% of cultural organizations grew their revenues from year to year, of those that lost ground, the majority saw declines of over 10%. Only 38% improved their financial condition compared to the previous year.

While Erie County human services organizations were strongest in 2013 and health organizations strongest in 2012, both of these sectors showed some growing vulnerabilities in this year's analysis. While 68% of health organizations grew and 59% of human services organizations also increased in revenue, 31% of human service organizations and 26% of health organizations were on a downward trend, posting a larger deficit in 2014 than in 2013.

In opposition to a national trend noted in *The State of Nonprofit America* (Salamon, et.al. 2012) that sees larger organizations getting larger each year and smaller organizations getting smaller, here in Erie County where we have so many smaller organizations, they are finding a way to grow, tapping new funding sources and earning more revenue in all sectors except health, which is, so it seems, dominated everywhere by large organizations.

#### In the Big Picture, What Does This Mean?

So while the local picture can be characterized by strength masking underlying weakness, what does this mean for the nonprofit sector overall, and how does it stack up in a national comparison? Nonprofits are more numerous here, they occupy a greater share of the workforce and are a bigger piece of the total economy that one finds in a national comparison. In Erie County there is one nonprofit organization for every 265 residents while the national picture shows one for every 320. The nonprofits' share of the local workforce is 12.23%, compared to 10.9% nationally. Interestingly, Pennsylvania ranks 4<sup>th</sup> nationally in percentage of nonprofit employees – at 15.9% it trails only New York and Rhode Island at 18.8% and Maine at 17.7% according to the National Council of Nonprofits.

Relative to the economy as whole, the nonprofit sector accounts for 15.4% of the Erie County economy, trailing only the manufacturing sector which represents 24% of the county economy. This figure is precisely on par with the size of the street level presence of nonprofits in the portion of downtown Erie bordered by the Bayfront, 14<sup>th</sup> Street, Holland Street, and Sassafras Street. According to a walking survey completed this summer by NPP, nonprofits account for 16% of the street level tenancy in the downtown core, dominated by two large nonprofits – Gannon University and UPMC Hamot. Bars and restaurants have the same footprint at 15% of the total. The greatest share of downtown Erie is occupied by professional and commercial enterprises at 35%, while 7% of the properties are vacant. A comparison of street level tenancy rates between downtown Erie and nearby downtown Jamestown, NY yields an interesting comparison. While the nonprofit saturation is similar at 15 and 17%, Jamestown has far more retail and vacant space while Erie has more business and professional tenancy.