Executive Summary

The Economic Impact of Monterey County’s Nonprofit Industry

Why Study the Economic Impact of Nonprofits?

The nonprofit industry plays a vital role in Monterey County’s economic and social health. A strong economy requires a healthy, thriving community made up of individuals working and playing together — actively participating and engaged in improving their lives and the community as a whole. Nonprofits play a major role in building community, preserving culture and helping residents to prosper.

However, in local discussions and decision-making processes related to economic development, the nonprofit sector is frequently overlooked. The reason for this exclusion stems, in part, from the lack of a clear identity as a unique segment of the economy. Non-profits are defined in our culture by what they are “not”: not corporate, not commercial, not-for-profit. In other countries they are called non-governmental organizations (NGOs): not quite public, not quite tax-supported. This language makes it difficult to define, in a sound bite, just what this industry actually is.

In contrast to the frequently cited economic anchors of the county — agriculture and tourism — nonprofit organizations are neither confined to, nor defined as, a specific industry in the economy. Nonprofits span a wide variety of industries within the local economy—education, job-training, hospitals and health services, social services, housing, environmental protection, youth development, and religious/spiritual. What distinguishes the nonprofit sector is not how it does what it does, but rather, why. While there is considerable diversity in the array services they provide, they do share a common underlying purpose—to serve the public good.

This distinguishing feature of nonprofits, by its very nature, places them in a unique position to act as leading forces in the local economic development. Nonprofit organizations routinely provide services demanded in the economy that are not provided by the for-profit firms (either too risky or not profitable), and they meet this demand at considerably lower cost than could be supplied by either the for-profit business sector or by the public sector. Indeed, nonprofits prove to be a powerful and effective mechanism for addressing collective community interests. In the course of their work they have a significant direct economic impact in the community – even before considering the more frequently noted and well-understood societal quality of life impacts provided by the nonprofit sector. Like all businesses, the nonprofit sector has been impacted by the downturn in the economy and the fiscal cutbacks in the public sector. But the very problems that drive revenue declines produce an increase in demand/need for the services provided by the nonprofit sector. Fortunately, nonprofits prove to be resilient organizations that continue to find ways to provide more even when receiving less.

The purpose of this study is to tell the story of local nonprofits by demonstrating their collective strength and impact on the local economy. The size and scope of the nonprofit industry is remarkable. It has a nearly $1 billion a year impact in the local economy, brings in millions of ‘new’ dollars to the local economy every year, employs thousands of people and their activity sustains thousands of additional jobs. While more difficult to express quantitatively, nonprofits also contribute to the economic vitality of the community by providing services that are more cost-effective than alternatives provided either by business or government, and by providing the services needed to create a more productive workforce.

Methodology and Data

For the Common Good focuses solely on nonprofit public-benefit corporations in Monterey County. The term nonprofit refers to a classification that indicates an organization exists to benefit the public, rather than for the benefit of its founders or employees. These organizations are allowed to operate without paying certain taxes, in exchange for a prohibition on transferring revenues in excess of expenditures to the founders or employees of the organization.

This study of the nonprofit industry relies upon a variety of economic and financial data reported to government agencies, as well as primary data collected locally through surveys and interviews with nonprofit managers. Survey results provide information on 124 local nonprofits — or approximately 28% of the total number of nonprofits in Monterey County.
Summary of Findings

Nonprofit organizations play a vital role in sustaining Monterey County’s economic and social health. The purpose of this study is to tell the story of local nonprofits, to demonstrate their collective strength and impact on the local economy. In this study, the nonprofit industry is defined as 501(c)(3) public benefit organizations registered in Monterey County. This study relies upon economic data reported to state and federal agencies, and data collected locally through survey research and interviews with nonprofit organization managers. As a result of our research efforts we have learned the following:

- There are total of 1,212 registered nonprofits in Monterey County (IRS Business Master file, April 2004). However, only 433 had operations large enough to meet the IRS reporting requirements. Monterey County has fewer nonprofit organizations per capita (2.9 per 1,000 people) than California (3.7) overall. Human services (33% of all organizations) constituted the largest segment of the nonprofit sector, followed by arts (17%) and education (16%).

- Nonprofits had a direct economic impact, as measured by expenditures, of over $824 million in 2002. More than 80% of this $824 million stayed in the local economy through purchases of goods and services from Monterey County businesses, and payment of salaries and wages paid to nonprofit employees residing in Monterey County.

- Nonprofits reported expenditures of $212 million on salaries/wages and other compensation, and paid nearly $16 million in payroll taxes.

- Nonprofit organizations reported revenues of over $875 million, with an estimated $175 million of this originating from sources outside of Monterey County. Respondents to the Nonprofit Economic Survey alone reported $123 million in revenue from sources outside of Monterey County in the 2003-2004 fiscal year.

- Nonprofits employed nearly 8,000 people in 2001 according to a study by the California Association of Nonprofits. This is similar in size to both the construction and manufacturing sectors in Monterey County. Both full-time and part-time employment has increased notably since 1998. Overall, nonprofits expect further growth in employment in the next two years, although the majority of nonprofits do not expect to add any positions during this time. Few nonprofits (less than 4%) anticipate eliminat-
ing positions in the next two years.

- The total economic impact of the nonprofit industry on Monterey Count’s economy, including direct and indirect effects, is $1.5 billion. Expanding the geographic scope statewide, local nonprofits have a $2 billion impact on the state economy. In addition to the direct employment they indirectly support an additional 4,400 jobs. This constitutes a total employment impact of over 12,000 jobs locally, and over 14,000 jobs statewide.

- Nonprofits reported over 1.3 million hours of volunteer service to their organizations in 2003-2004. For the typical nonprofit this represents approximately 1,600 hours per year. Survey respondents reported 15,243 total volunteers. In-kind contributions totaled in excess of $10.7 million.

- Monterey County nonprofit organizations serve everyone. Collectively, they reported reaching more than 3 million people through direct service in 2003-2004. The typical nonprofit reported reaching approximately 1,700 people per year.

- Most (63%) nonprofits anticipate reaching more people through direct services in the next two years, and (70%) expect the demand for their services to continue to increase during this time. Very few anticipate reaching fewer people (4.4%) in the near future, and even fewer nonprofit organizations expect the demand for their services to be lower (2%).

- Three-fourths of nonprofits reported serving the entire county. In addition to serving the local community, nearly one-third indicated they served areas outside of Monterey County.

- Nonprofits help reduce the burden to taxpayers and improve the standard of living in the county by providing a myriad of services that are cost-effect alternatives to government-led programs, divert those at risk from entering child welfare and criminal justice systems and support county residents as they move toward more successful, productive lives.
Conclusion

This study offers the first in-depth examination of the size, scope, and impact of Monterey County’s nonprofit industry. While many of us have associations with a limited number of specific nonprofits, few people appreciate or realize the overall magnitude of the nonprofit sector. Our findings demonstrate that nonprofits, by any measure, are a significant economic force in the county. This industry directly generates revenues of nearly $1 billion a year, brings in almost $200 million a year from sources outside the county, employs 8,000 people, supports a payroll of over $200 million, and provides valuable services that impact virtually every resident.

Beyond the impact in quantitative terms, the community benefits from a thriving nonprofit industry because the work of nonprofits supports the viability of business and the effectiveness of government. Nonprofits provide vital services and activities that benefit local employers and their employees: low-cost healthcare, affordable housing, enriching childcare, assistance for seniors, and after-school programs empowering youth. Nonprofits also do the work of creating and preserving the quality of life in the community that makes it attractive to employers and employees: art museums, theaters, music festivals, and environmental and wildlife preservation. Nonprofits play a fundamental role in educating the public sector through its advocacy for the needs and interests of the diverse constituencies in our community. They support the public sector by providing services that the community would otherwise expect from government—and do so at considerably lower cost. Nonprofits play a significant role in private and public sector collaboration.

The nonprofit industry is fueled by volunteerism. In fact, the nonprofit sector is unique in that it affords citizens an opportunity to direct their personal resources (time and money) towards addressing those issues/conditions that they see as priorities in their community. Nonprofit organizations offer all community members the opportunity to have their interests represented, to let them focus on the issues they care about, and to work towards the kind of change they want to see in their community. The opportunity for this form of participation is in sharp contrast to the public sector where individual citizens frequently feel disconnected from the decision-making processes (how their tax dollars are spent), and the for-profit business sector that is not “mission-driven”.

The nonprofit industry is entrepreneurial by nature, and it consistently demonstrates the flexibility and adaptability required to meet the changing needs of the community. However, the nonprofit industry is not without its challenges. One such challenge concerns nonprofit viability at a time when the public sector is reducing its funding for safety-net services (food, shelter, basic healthcare). The impact of this shift in fiscal priorities is amplified through the nonprofit sector. The immediate consequence is a greater reliance on nonprofit organizations to provide the safety-net needed to support the most at-risk members in our community. Nonprofits frequently answer this call and provide the services needed—often times without receiving additional funding.

Nonprofits are resilient, but there are limits to their capacity, and our analysis suggests that the limits of this capacity will soon be tested. The results from recent surveys of nonprofits in Monterey County provide evidence of this impending challenge. In the near future nonprofits expect the demand for services to continue to increase, and accordingly, they anticipate serving more people. However, the demand side of the equation is not in balance with the supply side of the equation. Survey results also indicate that most nonprofits do not anticipate adding additional employees or receiving increased funds to expand their capacity. Nonprofits are already expressing concerns with retention/turn-over and ‘burnout’ among employees at the current levels. Further attempts to stretch current capacity will undoubtedly result in a reduction in the amount, quality, or effectiveness of services as nonprofits.

It is evident that the role nonprofits play in local policy development is not commensurate with its economic stature. Bringing the status and role of nonprofits into alignment should be a priority not only for nonprofits, but for-profit business and the public sector as well—since building and sustaining a strong community requires all three sectors working in concert. Ensuring full participation for all sectors of the economy in the policymaking process is a necessary first step towards ensuring the community is successful in creating a high quality of life for all its residents. The foundation for such partnership among the economic sectors is already in place. The challenge ahead is to further tap into its potentialities in order to build the community we envision. It is our hope that this project serves as a call to action for all county residents, to raise their voices on behalf of the value and impact nonprofits have on all our lives.

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