Charting the Resources of the Pittsburgh Region's Nonprofit Sector

Carol J. De Vita, Eric C. Twombly,
Jennifer Auer, and Yuan You
Center on Nonprofits and Philanthropy
The Urban Institute

September 2004

Report Prepared for The Forbes Funds

The Urban Institute
2100 M Street, NW, Washington, D.C. 20037

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Executive Summary

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Nonprofits in the Pittsburgh area and across the country face a changing funding environment and a steadily rising need for their services. The nonprofit-government partnership is in a state of flux as government at all levels reassesses its priorities and budget allocations. Charitable giving, as reported on individual tax returns, has declined in recent years, and foundation support, at best, is holding steady. This scenario suggests the need for a systematic look at the nonprofit sector in the Pittsburgh metropolitan area to target investments effectively and build the capacity of community-based groups.

The study was guided by four questions to uncover the notable strengths and gaps in nonprofit activity in the region:

1) What is the overall size of the nonprofit sector in the Pittsburgh area and how does its size vary by county?
2) How is spending distributed across counties and does this distribution vary by industry?
3) On what sources of revenue do nonprofits rely and does reliance vary by county?
4) How financially healthy is the region's nonprofit sector, and how does its fiscal well-being vary by county and industry?

Data for the study come from the National Center for Charitable Statistics at the Urban Institute and are based on the Forms 990 that nonprofits filed with the Internal Revenue Service for the year 2001. Because of lags in data processing, 2001 data provide the most complete set of records. More importantly, for many nonprofits 2001 marked the start of their current financial worries as the stock market tumbled and the economy softened.

Findings

- **Allegheny County dominates the region's nonprofit sector.** It ranks first in the number of nonprofit organizations in the region (1,799 of the 2,674 nonprofits in the region). It holds the greatest share of financial resources ($10.1 billion of the region's $12.4 billion in revenues, and $20.3 billion of the region's $23.2 billion in assets). Allegheny County has three-quarters of the nonprofit health providers in the metro region and 70 percent of the arts organizations.

- **Hospitals and health care systems dominate spending in the region's nonprofit sector, although human service providers are a significant economic force in small and mid-sized counties.** Nonprofit hospitals and health care systems are a $6 billion industry in the Pittsburgh region. In every county except Beaver, hospitals and health care systems accounted for half or more of nonprofit spending. In smaller counties (Fayette and Armstrong, for example), the hospital industry accounted for 60 and 70 percent of spending. The complexities of the health care industry make it difficult to accurately track the finances of these organizations, but their enormous

economic impact is undeniable. In smaller and mid-sized counties, human service providers also contribute a sizeable sum to their communities. Overall, nonprofit human service providers spent $1.2 billion in the region, of which about one-third ($407 million) was spent by nonprofits outside Allegheny County.

- **User fees, contracts, and government grants comprise the most important source of funding for Pittsburgh area nonprofits.** Of the $12.3 billion in nonprofit income in 2001, 85 percent (or $10.5 billion) came from fees paid by clients for services, contracts, and government grants. Less prominent, but still vital to the sector's funding base, is support from private donors. Private donations, including foundation support, added another $1.1 billion to the region's nonprofit sector.

- **The region's nonprofit sector ended 2001 with a modest operating margin of 3.3 percent.** Except for Fayette, smaller counties performed less well than larger ones. Armstrong, Butler, and Beaver had operating margins below 3 percent. Educational providers fared best, while human services and hospitals fared worst. Hospitals and health care systems operated on a razor thin margin of less than 1 percent.

- **Regionally, nonprofit assets totaled $23.2 billion 2001, with half of the assets concentrated in the health sector.** Health care held $11.8 billion in assets in 2001. Education ranked second with $6.2 billion or 27 percent of the total. By comparison, human services had a modest $1.6 billion in assets and the arts sector had $857 million. Regionally, three of every five dollars in assets are unencumbered with debt.

Implications

- **Despite the large number of nonprofits in the region, there are potential gaps in service, especially in smaller counties.** Armstrong County has no apparent arts sector, and three counties (Armstrong, Butler, and Fayette) have no nonprofit higher education facility. Although it may not be necessary or even desirable to have every type of nonprofit service represented in every county, it is important for residents to have access to services. Before filling any gaps, more needs to be learned about the needs and preferences of county residents regarding their use of services.

- **The sector's overwhelming reliance on user fees, contracts, and government grants creates a risky financial environment.** If government funding declines in the future, user fees or private donations must be increased to offset the loss of government support. Given the relatively small size of private donations, it is unlikely that they could make up for steep cuts in government funding. Smaller counties would be hardest hit by a loss in government funding.

- **Strengthening the region's nonprofit sector requires greater attention to the management of its resources.** One strategy might be to find areas of greater operating efficiencies; another might be to determine if the sector's assets can be better leveraged. Leaders in the region may need to decide if they want to signal to nonprofits that it is acceptable to build cash reserves or acquire assets, and if so, determine how to send this message to the sector.

INTRODUCTION

Nonprofit organizations are so integral to local communities that we often take them for granted. We know that nonprofits provide vital services such as child care, elder care, health services, legal services, arts and cultural activities, educational opportunities, and more. We also know that nonprofits help bring people together and foster a sense of community. However, most people have only a vague idea of the number and types of nonprofits found in their local area or the amount of financial resources needed to undergird and sustain their work.

Today, nonprofits face a changing funding environment and a steadily rising need for their services. The nonprofit-government partnership is in a state of flux as government at all levels reassesses its priorities and budget allocations. Charitable giving, as reported on individual tax returns, has declined in recent years, and foundation support, at best, is holding steady.[1] This scenario suggests the need for a careful and systematic look at the strengths and gaps of the nonprofit sector to target investments effectively and build the capacity of community-based groups.

This study takes a regional look at the nonprofit sector in the Pittsburgh metropolitan area. It examines the vast and varied nonprofit resources that are available throughout the region and details the state of the nonprofit sector in each of the seven counties (Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland) that comprise the metropolitan area. This approach provides not only a regional overview, but also a county-level profile that can be used for local planning and public education about the state of nonprofits in the Pittsburgh region.

[1] "Charitable Gifts Fell 4.8% in 2001, IRS Says," *Chronicle of Philanthropy*, May 1, 2003, p. 45.

Data for the study are drawn from the National Center for Charitable Statistics at the Urban Institute and are based on the Forms 990 that nonprofit organizations filed with the Internal Revenue Service (IRS) for the year 2001. (See appendix A for a detailed description of the study's data and methodology.) Because of lags in processing data, year 2001 data provide the most complete set of records for analysis. More importantly, for many nonprofits, 2001 marked the start of their current financial worries as the stock market tumbled and the economy softened.

The study uses basic financial measures, including revenues, expenses, assets, and liabilities, to assess the economic scope of the region's nonprofit sector. It also uses two measures—namely, operating margins and net assets—to examine the fiscal health of the sector in the Pittsburgh area. An operating margin is the difference between total revenue and total expenses, and shows whether an organization ended the year with a budget surplus or lost money. Nonprofits with positive operating margins may be more financially stable than those with negative margins. Net assets are the difference between total assets and total liabilities. This measure serves as a proxy for a group's economic "worth" and indicates the financial reserve on which it may draw if times get tough. Greater net assets may indicate better fiscal health.

The analysis calculates the fiscal size and well-being of nonprofits across seven key industries in the region, including (1) arts and culture, (2) hospitals and health care systems, (3) health that excludes hospitals and health care systems, (4) higher education, (5) other education that excludes colleges and universities, (6) human services, and (7) all other nonprofits. The study also examines the financial scope, resource concentration, and fiscal health of the sector at the county level to examine the following questions:

1) What is the overall size of the nonprofit sector in the Pittsburgh area and how does its size vary by county?

2) How is nonprofit spending distributed geographically in the region and does this distribution vary by industry?

3) On what sources of revenue do nonprofits rely and do patterns of reliance vary by county?

4) How financially healthy is the region's nonprofit sector, and how does its fiscal well-being vary by county and industry?

Exploring these questions provides important empirical evidence on the notable strengths and gaps in nonprofit activity in the Pittsburgh area. The report concludes with a discussion of issues that can guide the actions of public officials, local foundations, and concerned citizens who want to improve the region's nonprofit sector.

HOW MANY NONPROFITS ARE IN THE PITTSBURGH REGION?

The Pittsburgh region's nonprofit sector contained 2,674 organizations in 2001—or, on a per capita basis, 11.1 organizations per 10,000 resident in the region. These community-based groups have a tremendous influence on community life, serving the geographic area in which they are located and sometimes the region as a whole. Geography plays an important role in understanding the size and structure of the region's nonprofit sector.

Allegheny County forms the hub of the Pittsburgh region. With 1.3 million residents, its population is almost 10 percent larger than the population of the other six counties in the region combined. Armstrong is the smallest county in the metro area with fewer than 100,000 residents, while Westmoreland (368,000) and Washington (204,000) are the largest counties after Allegheny. The size of a county's population is important because it closely relates to the number of nonprofits in the area. As illustrated in table 1, the scale of each county's nonprofit sector reflects the county's population size.

- **Allegheny County has the largest number of nonprofit organizations and the overwhelming share of financial resources in the region.**

On every dimension, Allegheny County dominates the region's nonprofit sector. With nearly 1,800 charitable groups, it has twice as many nonprofits as the other six counties combined. Its revenues and expenses (roughly $10 billion, each) are about 4.5 times greater than the combined resources of the remaining counties, and Allegheny has nearly seven times more assets ($20 billion) than the combined total for the six surrounding counties ($2.9 billion). Nonprofits in Allegheny County are the central core of the region's nonprofit sector.

Table 1. Size of the Nonprofit Sector in the Pittsburgh Metropolitan Area, 2001

Dollars in millions

County	Number of Nonprofits	Population	Total Revenues	Total Expenses	Total Assets	Nonprofits per 10,000 Residents
Allegheny	1,799	1,261,303	10,095	9,763	20,271	14.3
Armstrong	47	71,659	85	82	82	6.6
Beaver	123	178,697	189	197	272	6.9
Butler	145	180,040	459	448	477	8.1
Fayette	102	146,121	209	197	262	7.0
Washington	156	204,286	624	598	776	7.6
Westmoreland	302	368,224	703	674	1,013	8.2
Metro Area	2,674	2,410,330	12,364	11,959	23,153	11.1

Source: National Center for Charitable Statistics/Guidestar National Nonprofit Database and U.S. Bureau of the Census

The number of residents in the other six counties also tends to dictate the size of their nonprofit sectors. For example, Westmoreland and Washington, the next largest counties after Allegheny, have the most nonprofit organizations (302 and 156, respectively), while Armstrong, the smallest county, has the fewest (47). On a per capita basis, however, Butler and Fayette counties have relatively large nonprofit sectors. Butler ranks third on a per capita basis just after Westmoreland, and Fayette ranks fifth, slightly ahead of Beaver and Armstrong counties.

- **Although the size of the sectors differs across counties, the pattern of nonprofit services is similar.**

Despite differences in size, the nonprofit sectors in all seven counties offer the same general mix of services. In every county, human service groups are the most prevalent type of nonprofit (table 2). This category includes YMCAs, the Salvation Army, the Urban League, Boys and Girls Clubs, elder services, food banks, homeless shelters, and more. Educational organizations are the second most common type. In several counties (Allegheny, Butler, and Fayette), health care providers are almost as prevalent as education groups, but they rank a distant third behind education in Armstrong, Beaver, Washington, and Westmoreland. Every county, however, has at least one nonprofit hospital or health system.[2] Arts and cultural organizations are the smallest component of the nonprofit sector in every county.

There are, of course, exceptions to these general industry patterns, particularly when the size and scale of the counties are taken into account. Butler, for example, has a relatively large arts sector. In most counties, arts organizations represent between 5 and 8

[2] When feasible, branches and affiliates of larger entities (e.g., the University of Pittsburgh Medical Center) were assigned to the counties in which they reside. See appendix A for further information.

percent of the nonprofit sector. In Butler, arts organizations claim an 11 percent share. In contrast, Armstrong has no nonprofit arts organizations—or at least none that filed with the IRS for 2001. The reason why Butler has a relatively large arts sector is unclear, but likely relates to the opportunities available for local artists or perhaps the preferences of local residents.

Table 2. Mix of Nonprofit Services in the Pittsburgh Metro Area by County, 2001

	Allegheny	Armstrong	Beaver	Butler	Fayette	Washington	Westmoreland	Total
Type of Service	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**N**
Human services	366	16	29	34	28	41	71	585
Education*	267	7	25	22	14	36	53	424
Higher education	*9*	*0*	*1*	*0*	*0*	*1*	*2*	*13*
Health providers**	254	4	12	21	14	13	29	347
Hospitals & health systems	*37*	*1*	*2*	*3*	*3*	*4*	*6*	*56*
Arts	154	0	12	16	6	7	25	220
All others	712	19	42	49	37	54	116	1029
All nonprofits	1799	47	123	145	102	156	302	2674

Source: National Center for Charitable Statistics/Guidestar National Nonprofit Database
*Excludes higher education
**Excludes hospitals and health systems

Allegheny County is the focal point for private, nonprofit higher education in the region. Nine of the region's 13 higher education institutions are located in Allegheny, including Carnegie Mellon, Duquesne, Robert Morris, and the University of Pittsburgh. Three counties (Armstrong, Butler, and Fayette) have no private nonprofit college or university, although these counties are served by the extensive Pennsylvania state system of higher education and community colleges, which are not a part of this study.

Washington and Beaver counties have an abundance of "other" educational groups (excluding higher education). Typically, about 15 percent of nonprofits in a county focus on education. In Washington and Beaver, more than 20 percent do. These groups include primary and secondary schools and PTAs, as well as adult education, libraries, student services, scholarship programs, and alumni associations.

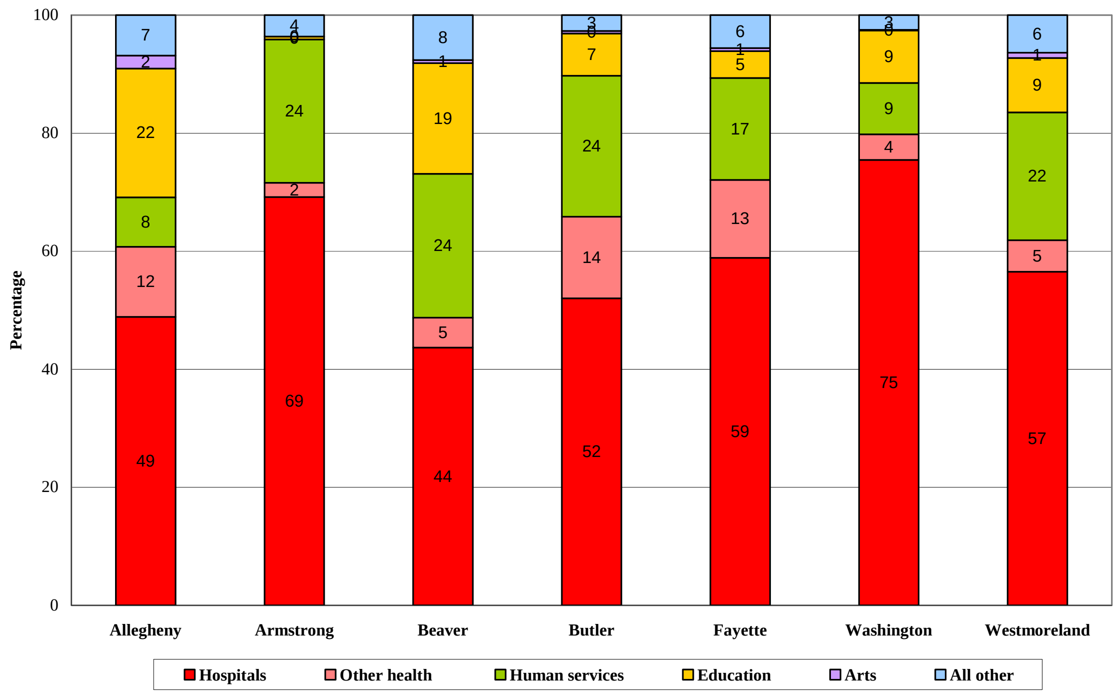
As table 2 also shows, between 35 and 40 percent of the community-based nonprofits in the seven counties cannot be classified into one of the study's six major categories. The "all other" category includes, for example, environmental groups, professional associations, credit unions, veterans' organizations, sports leagues, and the like. The large number of "all other" groups illustrates the vast range of services and activities that nonprofits provide. However, as shown below, these groups tend to be small, accounting for about 5 percent of the sector's expenditures.

WHAT IS THE FINANCIAL CONTRIBUTION OF THE NONPROFIT SECTOR?

Nonprofits in the Pittsburgh region spent more than $11.9 billion in 2001 to provide programs and services, but these funds were not evenly spread throughout the seven-county region. Given its size, Allegheny County accounted for the vast majority of spending: $9.7 billion, or more than 80 percent of all nonprofit expenditures in the region. As expected, larger counties generally reported higher expenditures than smaller counties. Westmoreland County, for example, spent $674 million in nonprofit services in 2001, while Armstrong County spent about $82 million.

However, expenditures vary enormously by industry. Some programs rely heavily on volunteers, while others require professional staff. As figure 1 shows, there are some common patterns of spending that occur throughout the seven-county region.

Figure 1. Share of Expenditures in Nonprofit Service Areas by County, 2001



- **Hospitals and health care systems dominate spending in the nonprofit sector.**

In every county, except Beaver, hospitals and health care systems accounted for half or more of all nonprofit spending. If one includes spending by other types of health providers (community clinics, public health centers, blood banks, etc.), the nonprofit health care industry accounts for more than 60 percent of all nonprofit expenditures. In some of the smaller counties (Armstrong and Fayette, for example), health care spending is even higher, accounting for more than 70 percent of nonprofit expenditures in 2001.

The complexities of the health care industry make it difficult to accurately track the finances of these organizations. For example, mergers, acquisitions, bankruptcies, and closures of large hospitals and health care systems presented data challenges. Some affiliates of the University of Pittsburgh Medical Center (UPMC) reported their expenses separately from the main UPMC Form 990 return. Others had their finances reported as a part of the main UPMC return. To the extent possible, expenses of health care providers were assigned to the county in which the facility was located. The relatively low share of health spending identified in Beaver County may be an anomaly because of these data issues. Nevertheless, about half of all nonprofit spending identified in Beaver went to health care, making health providers in Beaver a powerful force, just as they are in every other county in the region.

- **Nonprofit human service groups are a significant economic factor in small and mid-sized counties.**

After health care, human services are a critical component of the nonprofit sector, especially in small and mid-sized counties. Four of the seven counties in the metro area had expenditures that accounted for at least 20 percent of the county's nonprofit spending (figure 1). In Armstrong, Beaver, and Butler counties one in four nonprofit dollars was spent on human services; in Westmoreland, it was one in five dollars. In absolute terms, these shares represent almost $20 million in Armstrong, $48 million in Beaver, $107 million in Butler, and $145 million in Westmoreland. Only Allegheny and Washington counties had human service expenditures that dipped below 10 percent. This relatively low percentage occurs primarily because health care and education represent such large shares of the nonprofit sector in these counties. Nevertheless, nonprofit human service providers in Allegheny County spent $817 million in 2001, and those in Washington County spent $52 million.

- **Nonprofit educational groups, especially colleges and universities, play an important economic role in Allegheny and Beaver counties, but they are comparatively small players in other counties.**

Nonprofit education groups can be found in all counties of the Pittsburgh metro region, but it is higher education institutions (colleges and universities) that make the biggest financial contribution to a county. In 2001, higher education was a $2.3 billion industry in the Pittsburgh metro area. Other nonprofit educational groups contributed $301 million to the region's economy.

Allegheny, with its abundance of colleges and universities, overshadows all the other counties in the region in nonprofit educational spending, accounting for 92 percent of the region's overall nonprofit educational expenditures. Nonprofit educational groups in Allegheny spent more than $2.1 billion in 2001, almost 90 percent of which can be attributed to higher education facilities. In fact, in Allegheny County, higher education is second only to health care in terms of expenditures. More than one in five nonprofit dollars in Allegheny was spent in the education field.

As noted above, three counties (Armstrong, Butler, and Fayette) do not have private nonprofit higher education facilities that could be identified from the Form 990 data and other sources. Higher education in these counties appears to be tied to the state (public) system of higher education and community colleges, which is out-of-scope of this study. However, several private nonprofit higher education institutions are located in Westmoreland and Washington counties. The expenditures of these colleges and universities ($48 million in Westmoreland and $44 million in Washington), together with those of other nonprofit educational groups, accounted for about 9 percent of all nonprofit spending in each of these two counties. Although these percentages are relatively small compared with Allegheny County, nonprofit educational groups in Westmoreland and Washington are important contributors to the local economy.

Beaver is the only county, other than Allegheny, where nonprofit educational groups, including higher education, have a relatively large financial role in the county's nonprofit sector. About one in five nonprofit dollars in Beaver (that is, $37 million) was attributed to these organizations in 2001.

- **Arts organizations are quite small compared to other nonprofit industries, with most of the financial resources concentrated in Allegheny County.**

Arts-related nonprofits account for only 1 percent of nonprofit expenditures in the region, and nearly all of these expenditures (95 percent) are concentrated in Allegheny County. But despite this relatively small sliver of the nonprofit pie, arts and cultural groups made substantial economic contributions in several counties in 2001. For example, Westmoreland's nonprofit arts groups spent more than $6 million providing programs and cultural activities in the community. Butler's nonprofit arts providers spent $2 million, and Fayette $1 million. Although the nonprofit arts sector is clearly dwarfed by the mammoth health care sector, it is an important financial player, as well as a social resource for community residents.

WHERE DO NONPROFITS IN THE REGION GET THEIR REVENUE?

Revenue is the lifeblood of local nonprofit industries. It is used to fund programs and services, as well as to pay wages and benefits, payroll taxes, and other administrative costs. Moreover, the ability to access the various financial resources is critical to creating a stable financial base for local nonprofits.

In 2001, the region's nonprofit sector reported $12.3 billion in revenues, but industries tended to rely on different mixes of revenue to fund their operations. Indeed, some industries relied heavily on government funding and user fees for their support, while others received a substantial portion of their income from private donors. While each industry in the region's nonprofit sector used a different mix of revenue, there are only small differences among the seven counties in the region.

- **Taken together, user fees and government contract income comprise the most important source of funding for Pittsburgh area nonprofits.**

Of the $12.3 billion of income in the region's nonprofit sector in 2001, more than 75 percent (or $9.5 billion) came from fees paid by clients for services and programs and contracts let by government (table 3). Because user fees and contract income are reported together as program service revenue on Form 990, the share from individuals and families, third-parties, and government payers cannot be disentangled. Still, because of the substantial role of government in funding nonprofit services (Salamon et. al 1999), government contracts likely constitute a significant portion of these monies. User fees include payments for classes at local arts providers, neutering and spaying services at nonprofit animal shelters, and tuition paid by students and their families to colleges and universities. In the health industry, direct payments and insurance reimbursements are also considered user fees. In human services, voucher income is generally included as user fees.

Less prominent but still important in the nonprofit funding structure are donor support and government grants. As table 3 shows, both sources provided roughly $1 billion each in 2001. Donor support includes direct contributions from individuals and families, donations made through the United Way of Allegheny County and other fundraising umbrellas, and corporate and private philanthropy. Government grants are

Table 3. Sources of Revenue in the Pittsburgh Region's Nonprofit Sector, 2001

Dollars in millions

Revenue Source	$	%
Donor support	1,063	8.6
Government grants	1,000	8.1
User fees and contracts, including government	9,491	76.9
Other	790	6.4
Total	12,344	100.0

Source: NCCS/Guidestar National Nonprofit Database

Note: The distribution of revenue sources is limited to nonprofits that filed the long form version of Form 990 with the IRS in 2001. Of the 2,674 nonprofits in the study, 2,203 (82.3 percent) filed the long version of Form 990 in 2001.

provided to nonprofits to help them build their infrastructure and capacity to provide services. An example is a local library that receives a government grant to build a new wing or expand its collection. In this regard, government grants differ significantly from government contract revenue for accounting purposes. Both donor contributions and government grants accounted for 8 to 9 percent of the sector's revenue base in 2001.

The region's nonprofit sector also received nearly $800 million in 2001 from other sources of revenue, such as the sale of goods and inventories, membership dues, stock sales, and so forth. Together, these sources accounted for roughly 6 cents for every $1 in income in the metro area's nonprofit sector.

Among specific nonprofit industries, hospitals and health care systems earn the bulk of the user fees and contracts in the region. The groups in that industry reported nearly $5.7 billion in client payments and contracts in 2001 (table 4), accounting for more than 90 percent of their income. Higher education and other health care providers also received more than $1 billion in program service revenue in 2001. In contrast, the arts sector received relatively little in user fees and contract support, earning $80 million—or about one-third of its 2001 income from this source. Instead, the arts rely more heavily on donor support, which constituted 37 percent of its income.

Table 4. Sources of Revenue by Industry in the Pittsburgh Region's Nonprofit Sector in 2001,

Dollars in Millions

Industry	**N**	**Donor Support**	**Government Grants**	**User Fees and Contracts, Including Government**	**Other**	**Total**
Human services	529	143	328	726	53	1,249
Education*	289	82	75	140	53	350
Higher education	13	230	353	1,443	158	2,183
Health providers**	333	79	19	1,188	83	1,369
Hospitals & health systems	56	55	87	5,668	327	6,137
Arts	163	88	32	80	38	238
All others	820	387	106	247	78	818
All nonprofits	2,203	1,063	1,000	9,491	790	12,344

Source: NCCS/Guidestar National Nonprofit Database

*Excludes higher education

**Excludes hospitals and health systems

Education (excluding higher education) providers have the strongest mix of revenue sources among nonprofit industries in the region. While 40 percent of their income comes from user fees and contracts, they also receive considerable donor support (23 percent) and government grants (22 percent). Educational nonprofits receive 15 percent of their revenue—or $53 million—from other sources, such as merchandise sales. Research shows that diversified funding structures can help nonprofits weather difficult or changing financial environments (Tuckman and Chang 1991).

Human service providers are most reliant on government grants to support their activities. These providers receive 26 percent of their revenue from government grants, totaling $328 million in 2001. Human service nonprofits have a relatively low reliance on user fees and contract support (58 percent), compared with 77 percent for the sector as a whole. More than 10 percent of human service revenue came from donor contributions, equaling $143 million in 2001.

HOW HEALTHY IS THE PITTSBURGH REGION'S NONPROFIT SECTOR?

Given the revenue flows into the region's nonprofit sector, how well is the sector doing financially? The picture that emerges is complex, but reveals several strong and weak components of the region's nonprofit sector.

- **The operating margin for the region's nonprofit sector was a modest 3.3 percent above the break-even point.**

In the turbulent economy of 2001, the operating margin (i.e., revenues minus expenses) for the sector was quite modest—about 3.3 percent (table 5). This thin margin was evident in most counties in the region. With the exception of Fayette, smaller counties tended to do less well than larger counties. Armstrong, Butler, and Beaver Counties all had operating margins below 3 percent. In fact, Beaver's nonprofit sector had a negative

Table 5. Operating Margins by County in the Pittsburgh Regional Nonprofit Sector, 2001

Dollars in millions

County	N	Total Revenue	Total Expenses	Operating Margin	Operating Margin as % of Total Revenue	Rank	% Nonprofits with Positive Operating Margins
Fayette	102	209.4	196.6	12.8	6.1	1	64.7
Westmoreland	302	702.9	673.7	29.2	4.2	2	65.9
Washington	156	623.5	597.9	25.6	4.1	3	60.9
Allegheny	1,799	10,095.0	9,763.1	331.9	3.3	4	61.3
Armstrong	47	84.7	82.2	2.5	3.0	5	63.8
Butler	145	459.1	448.5	10.6	2.3	6	66.2
Beaver	123	189.5	197.6	-8.1	-4.3	7	63.4
Metro Area	2,674	12,364.1	11,959.5	404.5	3.3		62.0

Source: NCCS/Guidestar National Nonprofit Database operating margin in which total expenses exceeded total revenues. Beaver's negative operating margin (-4.3 percent) can be attributed largely to the financial problems of the nonprofit hospitals and health care systems in the county.

- **There was wide variation in operating margin by industry, with education faring the best and human services, and hospitals and health care systems faring the worst.**

Every industry faces its own set of challenges, but at the end of 2001, some segments of the region's nonprofit sector were coping much better than others. Industry groups clustered in two categories: those that were well above the regional rate of 3.3 percent, and those that were at or below this rate (table 6).

Table 6. Operating Margins by Industry in the Pittsburgh Regional Nonprofit Sector in 2001

Dollars in millions

Industry	N	Total Revenue	Total Expenses	Operating Margin	Operating Margin as % of Total Revenue	Rank
Education*	424	354.1	301.1	53.1	15.0	1
Higher education	13	2,183.1	2,023.4	159.7	7.3	2
All others	1029	828.1	768.6	59.4	7.2	3
Arts	220	240.1	224.2	16.0	6.7	4
Health providers**	347	1,369.5	1,324.3	45.3	3.3	5
Human services	585	1,251.7	1,224.5	27.2	2.2	6
Hospitals & health systems	56	6,137.5	6,093.5	44.0	0.7	7
All nonprofits	2674	12,364.1	11,959.5	404.5	3.3	

Source: NCCS/Guidestar National Nonprofit Database

*Excludes higher education

**Excludes hospitals and health systems

Education (excluding colleges and universities), higher education, arts, and the composite category ("all others") were the industry groups that fared very well financially. Each of these industries had operating margins at least twice as great as the regional rate. Education (excluding higher education) performed the best, posting an operating margin of 15 percent of total revenues for the year. In contrast, health providers, especially hospitals and health care systems, and human services were below the norm. Hospitals and health care systems in the region operated on a razor thin margin of less than 1 percent. Human services had just a 2 percent margin before they would slip into a deficit for the year.

- **Regionally, nonprofit assets totaled $23.2 billion in 2001, but these assets were concentrated primarily in Allegheny County and in the health care sector.**

Assets play an important part in the sector's financial portfolio. During tough financial times, assets can be sold or leveraged to secure loans. Like revenue and expenditures, assets are not evenly distributed across counties and industries in the Pittsburgh region. In fact, nonprofits in Allegheny County reported 88 percent (or $20.3 billion) of all assets in the region in 2001 (table 7). Westmoreland ranked second with $1 billion in assets. Similar to other measures, the county's size tends to correlate with its level of assets. Smaller counties had smaller levels of assets.

Table 7. Net Assets by County in the Pittsburgh Regional Nonprofit Sector, 2001
Dollars in millions

County	N	Total Assets	Total Liabilities	Net Assets	Nets Assets as % of Total Assets	Rank	% Nonprofits with Positive Net Assets
Beaver	123	271.6	82.5	188.8	69.5	1	94.3
Armstrong	47	81.7	26.3	55.2	67.5	2	95.7
Washington	156	776.4	270.2	506.2	65.2	3	87.8
Westmoreland	302	1,012.6	353.8	658.4	65.0	4	93.0
Fayette	102	262.4	97.5	164.9	62.8	5	92.2
Allegheny	1,799	20,271.4	8,238.3	12,039.4	59.4	6	90.6
Butler	145	477.3	261.2	215.5	45.1	7	87.6
Metro Area	2,674	23,153.4	9,329.8	13,828.4	59.7		90.8

Source: NCCS/Guidestar National Nonprofit Database

In terms of industries, health care again dominates the nonprofit landscape in the Pittsburgh region (table 8). All health care providers (that is, nonprofit hospitals, health care systems, and other types of health providers) held $11.8 billion in assets or 51 percent of the sector's total assets. Education, including higher education, ranked second with $6.2 billion in assets or 27 percent of the total. Together, these two service areas (health care and education) account for more than three-quarters (78 percent) of all assets in Pittsburgh's nonprofit sector.

By comparison, the assets for other industry groups are relatively modest, although not insignificant. Human services, for example, had $1.6 billion in assets, whereas the arts sector had $857 million in assets.

Table 8. Net Assets by Industry in the Pittsburgh Regional Nonprofit Sector, 2001

Dollars in millions

Industry	N	Total Assets	Total Liabilities	Net Assets	Nets Assets as % of Total Assets	Rank	% Nonprofits with Positive Net Assets
Arts	220	857.0	74.6	783.1	91.4	1	92.7
Education*	424	897.2	147.3	745.8	83.1	2	95.5
Higher education	13	5,275.2	1,568.5	3,706.7	70.3	3	100.0
All others	1,029	2,685.0	563.3	2,132.8	79.4	4	92.5
Health providers**	347	1,941.5	603.8	1,337.3	68.9	5	89.0
Human services	585	1,561.7	832.3	729.0	46.7	6	85.0
Hospitals & health systems	56	9,935.8	5,539.9	4,393.7	44.2	7	87.5
All nonprofits	2,674	23,153.4	9,329.8	13,828.4	59.7		90.8

Source: NCCS/Guidestar National Nonprofit Database

*Excludes higher education

**Excludes hospitals and health systems

Of course, assets are often offset with financial liabilities. In 2001, nonprofits in the Pittsburgh region carried more than $9 billion in liabilities, which included accounts and grants payable, deferred revenue, mortgages, and other debts. The difference between the $23.2 billion in assets and the $9.3 billion in liabilities equals roughly $13.8 billion in net assets—a proxy for the overall net worth of the sector in 2001.

As tables 7 and 8 indicate, 91 percent of nonprofit organizations in the region carried positive net assets. Regionally, only Butler and Washington counties slipped below this norm (both had 88 percent of their nonprofits reporting positive net assets), while Armstrong had the highest share (96 percent). From an industry perspective, there was also some variation. Health care providers and human service groups were all below the norm, while education and arts were above it. Indeed, all of the nonprofit higher educational facilities in the region had positive net assets in 2001.

Leveraging net assets is sometimes a strategy that nonprofits use to expand their financial position, particularly in difficult financial times. The feasibility of this approach and the risk associated with it are factors that nonprofit governing boards must weigh. However, the Form 990 data suggest that this may be an option to explore.

- **Roughly 60 percent of the assets in the region are unencumbered with debt.**

Regionally, three of every five dollars in assets are unencumbered with debt (that is, net assets divided by total assets). Butler and Allegheny counties are most likely to leverage their asset wealth, while Beaver and Armstrong counties are the least likely. As table 7 shows, these shares range from 45 percent in Butler to almost 70 percent in Beaver.

- **Human service providers and nonprofit hospitals and health care systems leverage their assets much more than arts and educational groups.**

Although many factors influence how an individual nonprofit will use its assets, there is considerable variation among nonprofit industries. Interestingly, the industries that appear to be most financially troubled in 2001 seem to be using their assets most aggressively. Both human service providers and nonprofit hospitals and health care systems (two industries that were very vulnerable financially in 2001) had more than half of their assets tied to liabilities. In contrast, 91 percent of the net assets in the arts sector and 83 percent in the educational area, excluding higher education, were unencumbered. The reasons for this situation are unclear, but it appears that the most financially strapped segments of the region's nonprofit sector leverage their assets the most.

IMPLICATIONS

With more than 2,600 organizations, $12 billion in revenue and $23 billion in assets, the Pittsburgh area's nonprofit sector appears to be large and well resourced. But, like an onion, the sector contains many layers, each one contributing to the whole of the sector but adding a somewhat different dimension. Hidden in these nonprofit layers are issues that may not be apparent from an overview of the sector. Three factors emerged from this analysis as issues that deserve the attention of community leaders and area residents.

- **Despite the large number of nonprofits in the region, there are potential gaps in service, especially in the smaller counties.**

Most nonprofits in the region are located in Allegheny County, leaving some of the smaller counties, such as Armstrong, Beaver, and Fayette, with fewer resources than other areas. Armstrong County, for example, had no apparent nonprofit arts provider, and three counties (Armstrong, Butler, and Fayette) had no nonprofit higher education institution that filed with the IRS in 2001.

Although it may not be necessary or even desirable to have every type of nonprofit industry represented in every county, it is important for residents to have access to services. Can community residents easily access the services that they need and want or must they travel great distances? The answer to this question may vary with the type of service desired. For example, community residents may want close and immediate access to health providers but may be willing to travel greater distances for arts and cultural experiences. Before determining the gap or redundancy of services, community residents should be given an opportunity to voice their needs and preferences. Coupling community preferences with information about existing programs can more accurately target gaps and proliferation of services. Policymakers and community leaders should also consider providing incentives (such as affordable space, stable funding, or a favorable community culture for programs or activities) that can lure existing nonprofits to the area or create new ones to fill the gaps.

- **The sector's overwhelming reliance on user fees, contracts, and government grants creates a risky financial environment.**

User fees and contracts, including government contracts, represent three-quarters of nonprofit income in the Pittsburgh metro area. Including government grants raises the total to around 85 percent. Indeed, user fees and government funding account for more than half of all funding for human services, health, and educational nonprofits in the region. Only the arts sector receives less than half of its funding from these sources.

This relationship sets up an interesting dynamic. If government funding declines, then user fees must increase to maintain the current financial structure. Alternatively, private donations might increase, but it is unlikely that they could make up for steep cuts in government funding. Overall, private donations represent less than 10 percent of funding in the Pittsburgh metro area.

Ironically, although Allegheny County receives the vast majority of dollars coming from user fees and government money, it is the smaller counties that would feel the greatest impact of changes in government funding. At least 90 percent of nonprofit revenues in Armstrong, Butler, and Fayette come from user fees and government grants. The larger counties have been somewhat more successful than the smaller ones in diversifying their funding bases.

In short, given the strong reliance of the Pittsburgh area's nonprofit sector to government support, government cuts could trigger either an increase in user fees or a change in the organizations' operating procedures, such as shortening hours of operation or cutting staff. Either strategy is likely to create adverse effects on users, particularly on the area's poorest and most vulnerable residents.

- **Strengthening the region's nonprofit sector requires greater attention to the management of its resources.**

In a changing and constrained funding environment, the Pittsburgh region's nonprofit sector faced significant challenges and managed to end fiscal year 2001 with a 3 percent operating margin. Although there is no recognized "standard" by which to judge this performance, a 3 percent operating margin leaves little room for error. Certainly on a case-by-case basis, not all of the nonprofit organizations in the Pittsburgh region ended the year with a positive balance sheet. Some organizations failed to make ends meet.

But if community leaders want to build the capacity of the region's nonprofit sector, they might begin by examining the basic revenue and expenditure flows of the sector, particularly in the counties and industries with the smallest operating margins. One important question to explore at the local level is whether thin operating margins are experienced by most nonprofits in the county or are they the result of one or two very large and stressed organizations. The answer to this question will help guide the community response and need for technical assistance.

Perhaps one of the most understudied and least understood financial issues in the nonprofit sector is its use of assets. The Pittsburgh region's nonprofit sector has $13.8 billion in net assets that were unencumbered by liabilities. But the vast majority of these assets (87 percent) are found in Allegheny County. Although nonprofits in Allegheny might consider how to leverage these resources to better serve the community, nonprofits in the remaining six counties have relatively few assets with which to work. The strategy of nonprofit leaders in the smaller counties may need to focus on either building an asset base or improving their cash flow operations.

This is no small task given the competition for available resources and the mindset of some nonprofits that they should operate on small margins to demonstrate their commitment to their charitable mission. In essence, leaders in the Pittsburgh area may need to decide if they want to signal to nonprofits that it is acceptable to build cash reserves or acquire assets. If so, the next step is determining how to send this message.

Strengthening the Pittsburgh region's nonprofit sector is likely to require targeted strategies to address specific needs. Small counties and major industries (i.e., health care and human services) appear to be the most vulnerable components of the sector. A blanketed response to the sector's financial challenges may very well help some parts of the sector, but may inadvertently hurt others. Given the diversity of the sector, the guiding watchwords may be, "think regionally, but act locally."

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APPENDIX A: METHODOLOGY

The primary data source for this study is the National Nonprofit Research Database (NNRD), housed at the National Center for Charitable Statistics at the Urban Institute. It is the most comprehensive database on nonprofit organizations in the United States. Based on Forms 990 that are filed annually with the Internal Revenue Service (IRS), the NNRD contains detailed information on the finances of 501(c)3 nonprofit organizations. This study examines groups that filed in fiscal year 2001, the latest and most complete set of records available. Because some nonprofits fail to file every year, even if they remain in operation, the study also includes unique cases found in fiscal year 2000, but not in the 2001 dataset. This technique ensures that we do not miss an organization because it failed to file its Form 990 in a particular year. In the dataset used for the analysis, 89 percent of the records were based on 2001 filings and 11 percent on 2000.

External sources, such as the American Hospitals Association directory of hospitals, the IRS Statistics of Income (SOI) file that contains nonprofit organizations with assets of $10 million or more, and the 2004 *Pittsburgh Book of Lists,* were matched with our dataset to identify any large organizations that were missing from the NNRD. The external lists were also used to identify and delete inactive nonprofits. These are organizations that no longer provide services, but are required to file the Form 990 as they sell their assets, complete a merger, or reconcile other financial issues. Allegheny University Medical Practices is one example. The study ultimately included 2,674 nonprofit organizations that operate in the Pittsburgh metropolitan area.

The study uses two units of analysis. First, the data are analyzed by the seven counties of the Pittsburgh metropolitan area: Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland. Second, the data are analyzed by seven major nonprofit industries: (1) arts and culture, (2) higher education, (3) education, excluding higher education, (4) hospitals and health care systems, (5) other health providers, excluding hospitals and health care systems, (6) human services, and (7) all other nonprofits. “Other” nonprofits include a wide range of organizations that focus on the environment, international affairs, civil rights, science and technology, religion, and other issues. In parts of the analysis, higher education was distinguished from other education, and hospitals and health care systems were distinguished from other health providers because their large financial size can skew the data analysis. The primary purpose of each nonprofit in the region was identified from codes in the National Taxonomy of Exempt Entities—Core Codes System (NTEE).

The database was reviewed carefully for errors. NTEE codes were checked and updated for large organizations (that is, the 10 percent of organizations with the largest expenses), and financial variables were checked for mathematical errors. Geographic codes were checked for organizations that have a single headquarters or tax office for a group of self-reporting, affiliated entities, such as the University of Pittsburgh Medical Center, the Presbyterian Association of Homes and Services for the Aging, and the Western Pennsylvania Allegheny Health System. When feasible, the affiliated entity was assigned the county code in which it resided. Geographic codes were also verified for the largest 10 percent of organizations in the study.

The data have two limitations. First, the IRS does not require small organizations (those with less than $25,000 in gross receipts) to file Form 990. While we expect the effect to be negligible on the fiscal analysis, the study likely undercounts the number of nonprofit organizations. Second, because Form 990 contains organizational, not establishment data, the dataset misses the satellite locations of groups that work in multiple counties. For example, Passavant Memorial Homes has establishments in six counties in the region, but the organization files one Form 990 for all establishments, which places all financial resources for this organization in Allegheny County.

The analysis plan uses basic statistics to analyze the size and fiscal health of the nonprofit sector in the Pittsburgh region. Size is assessed as the number of organizations and their level of spending. Fiscal health is analyzed as reliance on various sources of income, operating margins and net assets. Each measure is described in the text. Size and fiscal health are both assessed by the region's seven counties and seven industries within the sector.