



# Research Brief

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## Metro Nonprofits As Entrepreneurs

Taken as a whole, the nonprofit sector in metro Milwaukee is highly entrepreneurial. These organizations do not fit the stereotype of a previous era when many charitable groups depended solely on philanthropy for their survival. In contrast, today's nonprofits derive the lion's share of their revenue from a wide variety of earned-income activities. These activities include sales of products; fees for services; contracted services and products; tuition; interest and dividends on investments; admission fees; sales of property, assets and inventory; and rental income.

This is the picture that emerges from our analysis of income-producing activities by Milwaukee area nonprofits. The groups were selected to represent a cross-section of services and interests: educational institutions, hospitals and clinics, human services, environmental groups, cultural groups and organizations that provide funding to nonprofits as well as solicit donations, such as United Way and the Milwaukee Foundation.

Together, these organizations reported having received \$911 million in total revenue for the fiscal year that began in 1998 and in most cases ended in 1999. Of that total, about one of every three dollars was a gift from an individual, a corporation, a foundation or a government. The other two dollars can be considered earned income in the broadest sense.

This **Research Brief** is based on a study conducted by the Forum for the October 3, 2000 symposium on ***Nonprofits and For-Profits in the New Market Environment***, sponsored by the Donors Forum of Wisconsin, the Nonprofit Center of Milwaukee, the Nonprofit Management Fund, the United Way of Greater Milwaukee and the Public Policy Forum.

### Key findings:

- **Program revenue** -- school and college tuition, medical charges, tickets to performances and museums, and fees for services -- accounts for just over half of the total revenue received by Milwaukee area nonprofits.
- Although **program revenue** dominates total nonprofit revenue, program revenue has declined in recent years as a percentage of total revenue as **charitable gifts** and **government grants** have assumed a greater share.
- Earned income for service providers from **sources other than programs** account for less than 10% of total revenue. These revenue streams include, in decreasing order, sales of assets, dividends on investments, special events, inventory sales and rental income. However, these sources of revenue are significantly more important to small organizations than to larger groups.
- **Small** organizations rely significantly more on investment income than do **large** groups, whereas larger nonprofits rely much more on revenue from programs and services.
- **Arts** and **environmental** nonprofits tend to have proportionately less earned income than does the nonprofit sector as a whole. These groups depend largely on charitable gifts.
- **Education, human service** and **health** nonprofits derive most of their revenue from tuition and medical charges, but trends for those sectors differ. Gifts are the fastest-growing source of support for education bellwethers; human service groups have experienced a rapid increase in program revenue; and health organizations have seen a drop in program revenue but a surge in government grants.



## **Introduction and Methodology**

The analysis in this report is based on detailed information from tax forms provided by 67 nonprofits that operate in Ozaukee, Milwaukee, Washington and Waukesha Counties. These bellwethers have participated in an annual study of charitable giving conducted over the past four years by the Public Policy Forum for the Milwaukee Foundation. The participating organizations range in total revenue for 1999 from \$81,716 to more than \$340 million, and they account for roughly half of all non-sectarian philanthropic giving in the metropolitan Milwaukee area. They include both service providers and funding organizations.

Service providers are nonprofit organizations that provide a service in one of five categories:

- Education -- schools, colleges and other education-oriented groups
- Arts and Culture -- museums, performing groups, historical societies and similar organizations
- Human service -- groups that provide social services
- Environment -- nature centers and other environmental groups
- Health -- hospitals, clinics and health associations

Funding organizations consist of combined appeals and foundations that provide funding to other groups by soliciting contributions, such as United Way, the Combined Health Appeal, the Milwaukee Foundation, the Milwaukee Jewish Federation and the United Performing Arts Fund.

In some cases, organizations could reasonably be classified in two or more different categories. Judgments were made in such cases in consultation with the organizations themselves.

This method made it possible to track direct public support for a consistent group of bellwethers, for each subgroup and for each size of organization over a 7-year period that began in 1991 and ended in 1999. The organizations operate under at least six different fiscal years (ending in December, March, April, June, August and September) for purposes of accounting and tax reporting.

Data on each of the organizations selected for this study were taken from page one of the Internal Revenue Service form 990 filed for 1991, 1992, 1993, 1994, 1995, 1996, 1997 and 1998 as well as information from page 6 for the 1998 form. All data are self-reported by the nonprofits included in the study. In some cases, estimates were used because of missing data from early years.

In addition, the chief executives of the Milwaukee area bellwethers participated in a brief survey about current and anticipated income-producing activities. The survey was mailed to all 67 bellwethers, and after follow-up mailings and interviews, responses were received from virtually all of them.



## Overview of Income-Producing Trends Among Metro Area Nonprofits

Although the nonprofit sector is well known for the support it draws from charitable donations, a closer look reveals that income-producing activities account for the lion's share of the sector's revenue. This conclusion emerges from our analysis of tax forms filed by a representative sample of 67 nonprofit organizations in the metropolitan Milwaukee area. However, the revenue picture differs markedly among individual nonprofits and among the types of organizations. For example, groups that support the arts and the environment tend to be dependent upon gifts for the majority of their revenue, whereas education, health and human service organizations rely mostly on earned income.

Overall, program service revenue accounts for just over half (52%) of revenue for metro Milwaukee nonprofits (Chart 2). Examples of program revenue are: college and private school tuition; charges for services at clinics and hospitals; admission fees for museums and performances; fees for fitness centers run by nonprofits and charges for child care and other child and family services.

Other forms of earned income account for nearly one-fourth of total revenue for nonprofits as of 1999, and charitable donations account for the remaining one-fourth. Examples of earned revenue that is not considered program services include: sales of products, inventory and assets; investment income from stocks, bonds and rental property; and government contracts.

A look at a seven-year trend (1992 through 1999) reveals that nonprofits as a whole have experienced a surge in both government grants and gifts from individuals, businesses and foundations (Chart 1). At the same time program service revenue, while still dominant, has grown -- but considerably more modestly. For example, while program service revenue increased about 20% from just over \$400 million to less than

## Revenue Sources for Bellwether Nonprofits

67 Metro Milwaukee Organizations -- 1992-1999

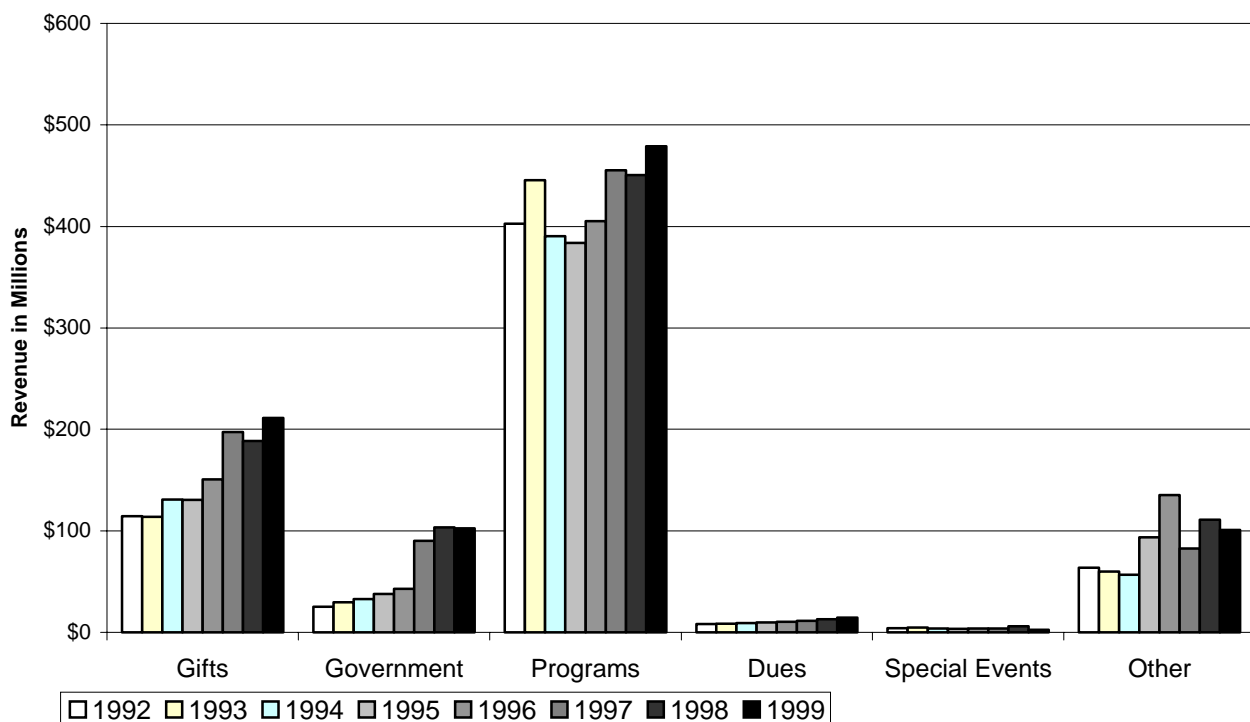


Chart 1



\$500 million between 1992 and 1999, charitable donations nearly doubled to more than \$200 million. Government grants, although a relatively small contributor to total revenue, grew even faster, more than tripling to more than \$100 million.

Chart 3 depicts the resulting trend. Program service revenue has declined as a percentage of total revenue and has been somewhat displaced by government grants and charitable donations. Even so, program revenue remains the primary source of income for nonprofits.

The picture changes dramatically, however, when disaggregating the data into types of nonprofit organizations. In summary:

- **Arts and Culture** organizations taken together derive 60% of their revenue from donations and have seen a surge in gifts even after accounting for a major capital drive by the Milwaukee Art Museum that distorts the overall picture. Meanwhile, program revenue growth has been nonexistent. *Page 6.*
- **Education** organizations -- mainly colleges and private schools -- reported receiving 57% of their revenue from programs, mostly tuition. Both programs revenue and charitable donations have risen at a healthy pace. *Page 7.*
- **Environmental** organizations derive the great majority of their revenue (70%) from donations, which also are the fastest growing source of support. Earned income is very limited for these organizations. *Page 8.*

## 1999 Revenue Sources for Bellwether Nonprofits

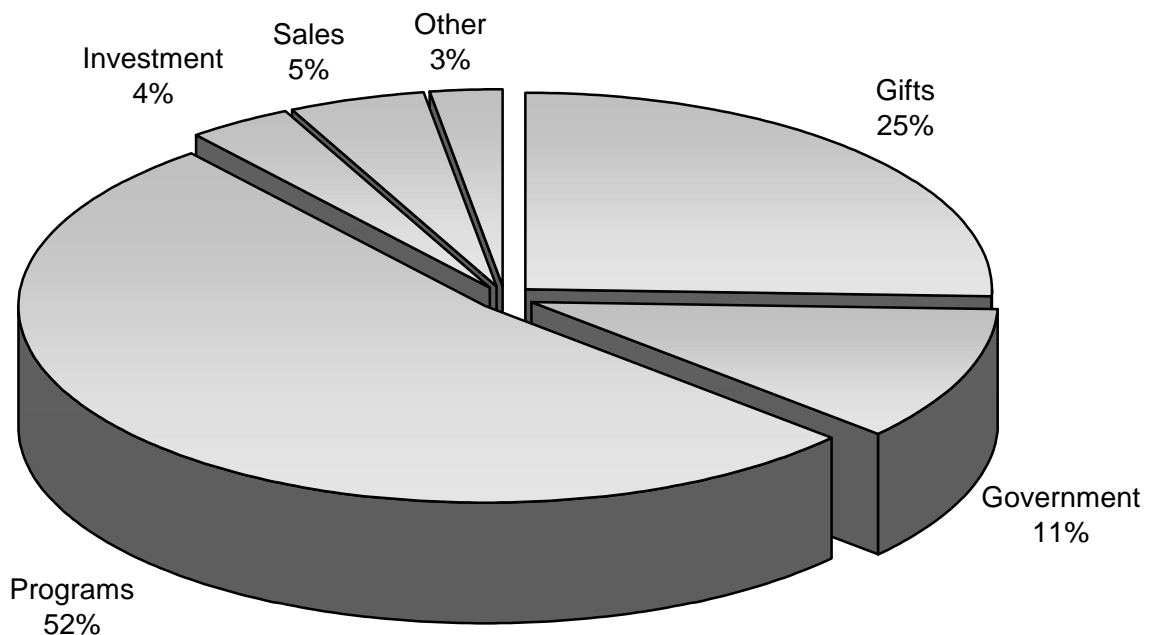


Chart 2



- **Health** organizations, which include hospitals and clinics, count on program service revenue (charges for services) for 70% of the total. However, this source of revenue has been declining, and government grants are picking up some of the slack. *Page 9.*
- **Human service** groups reported receiving most of their revenue (58%) from program services. Program revenue, which includes government contracts, is a rapidly growing source of income for these nonprofits, whereas donations and government grants have grown somewhat more modestly. *Page 10.*

Our study also looked in more detail at investment income and found that investments are a relatively small source of revenue for most nonprofits. The largest sources of investment income in 1999 were asset sales and dividends. Inventory sales and rental income were far down on the list. Despite the relatively minor role investments play overall, they appear to be much more important to small nonprofits than to larger ones. Our analysis found that small groups (those receiving revenue of less than \$2 million for 1999) reported investment income as contributing more than 10% of total revenue.

Program revenue also differed by size of organization (*Page 11*). For all bellwether groups of all sizes taken together, health service charges accounted for more than half (55%) of the aggregate program service revenue. However, a look at small and medium-sized nonprofits revealed a different picture. For groups reporting less than \$5 million in total annual revenue, charges for children's services accounted for 35% of program service revenue, followed by admission fees (21%) and other service charges (22%).

## Revenue Trends for Bellwether Nonprofits 1992-1999

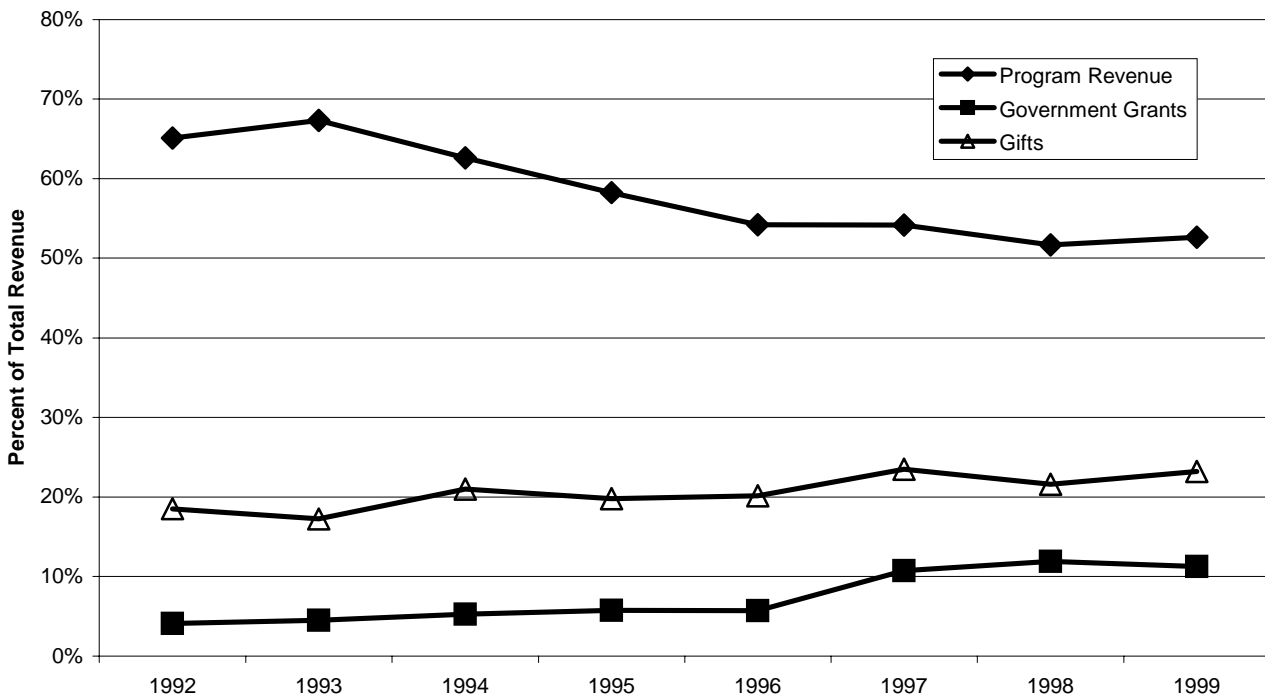


Chart 3



## Arts and Culture Revenue Sources

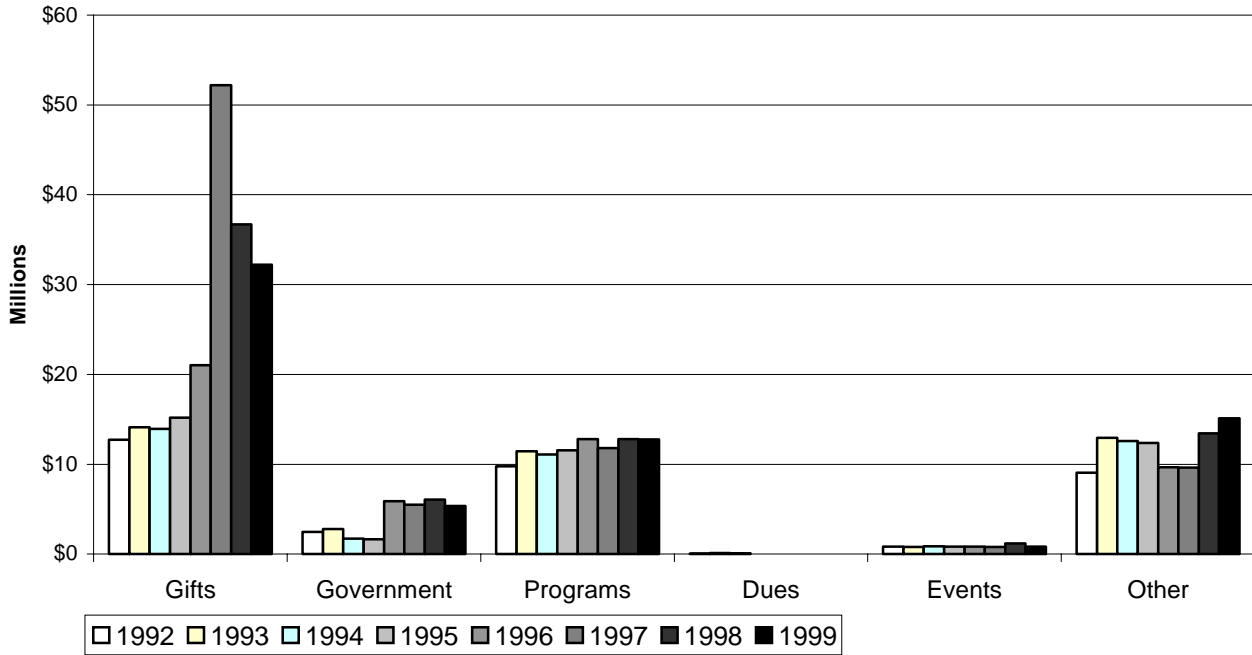


Chart 4

## Arts and Culture Revenue -- 1999

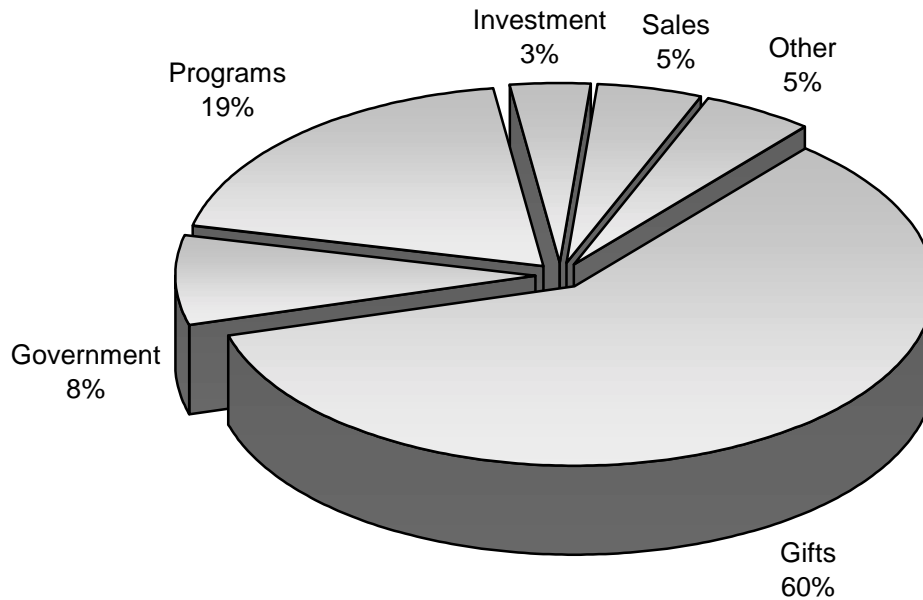


Chart 5



## Educational Institution Revenue Sources

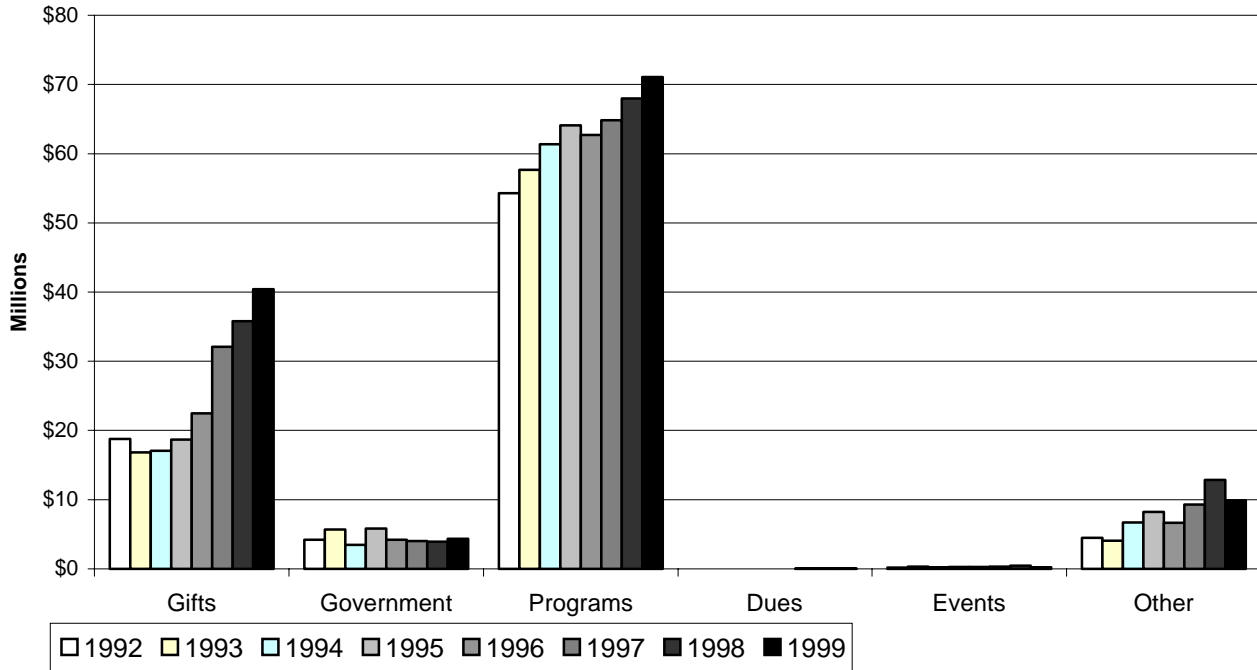


Chart 6

## Education Revenue -- 1999

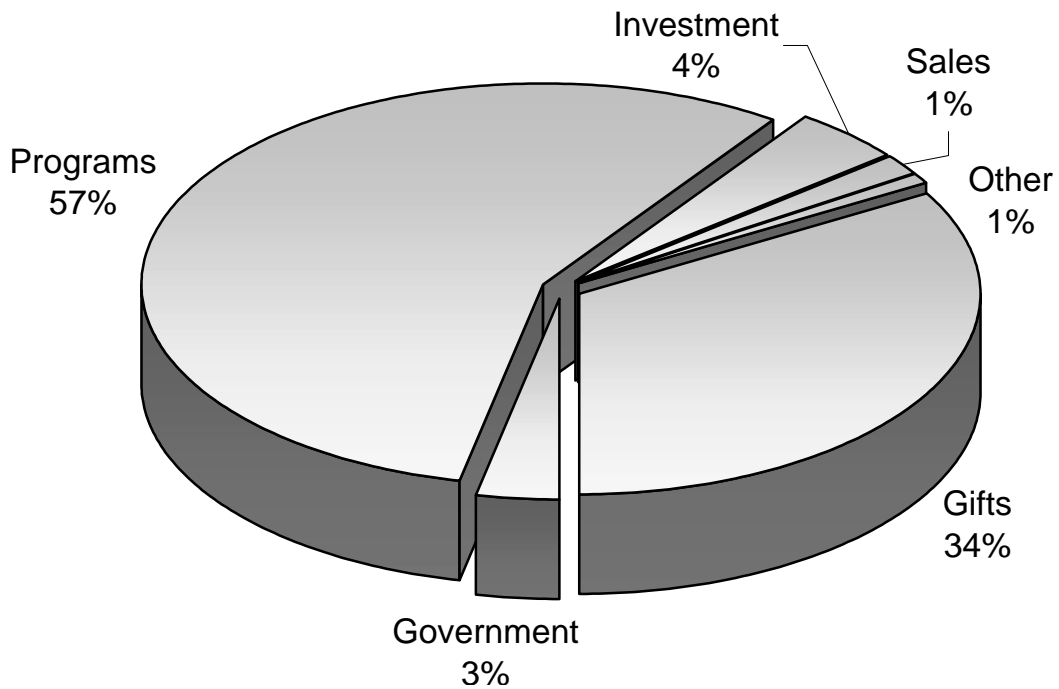


Chart 7



## Environmental Organization Revenue Sources

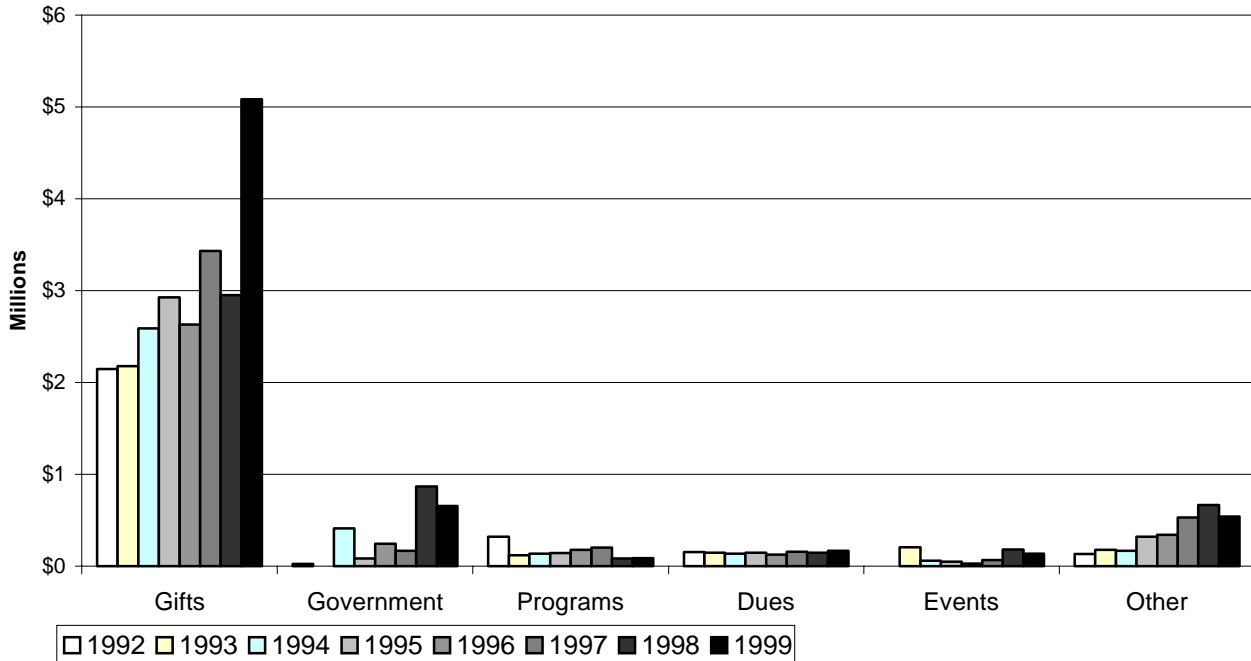


Chart 8

## Environment Revenue -- 1999

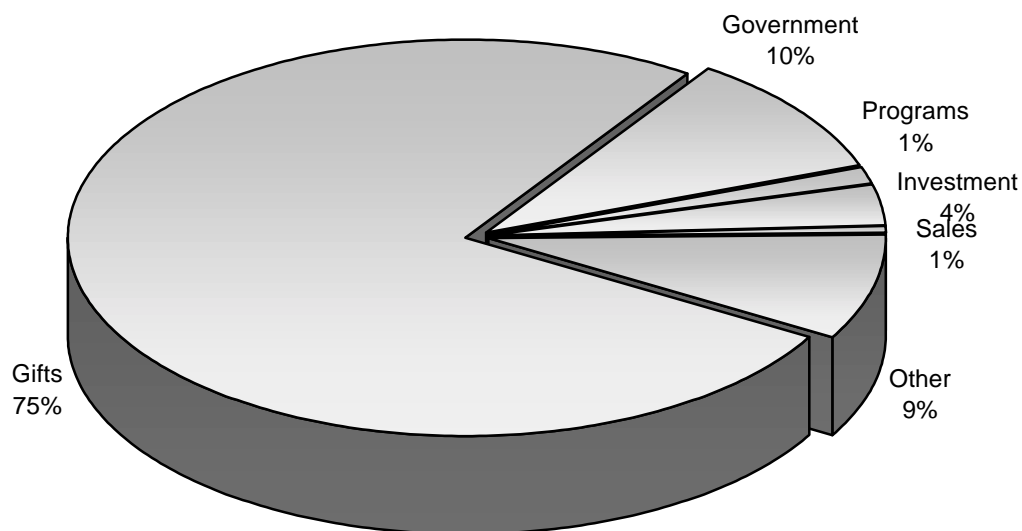


Chart 9



### Health Organization Revenue Sources

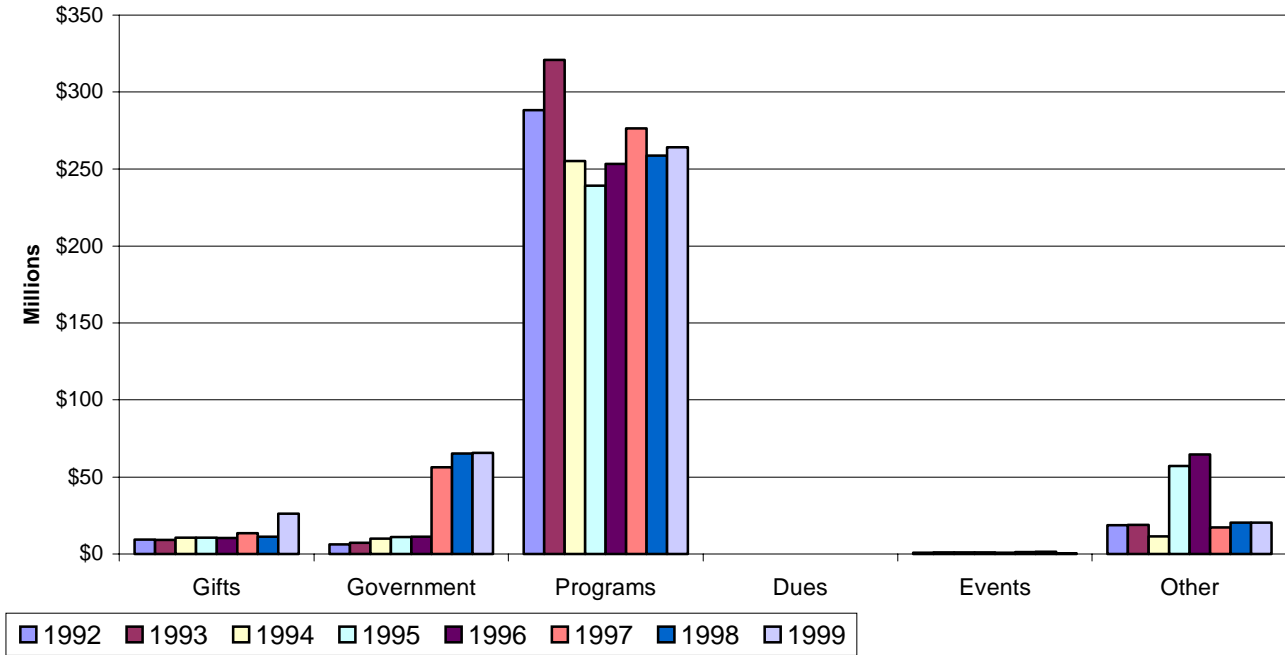


Chart 10

### Health Revenue -- 1999

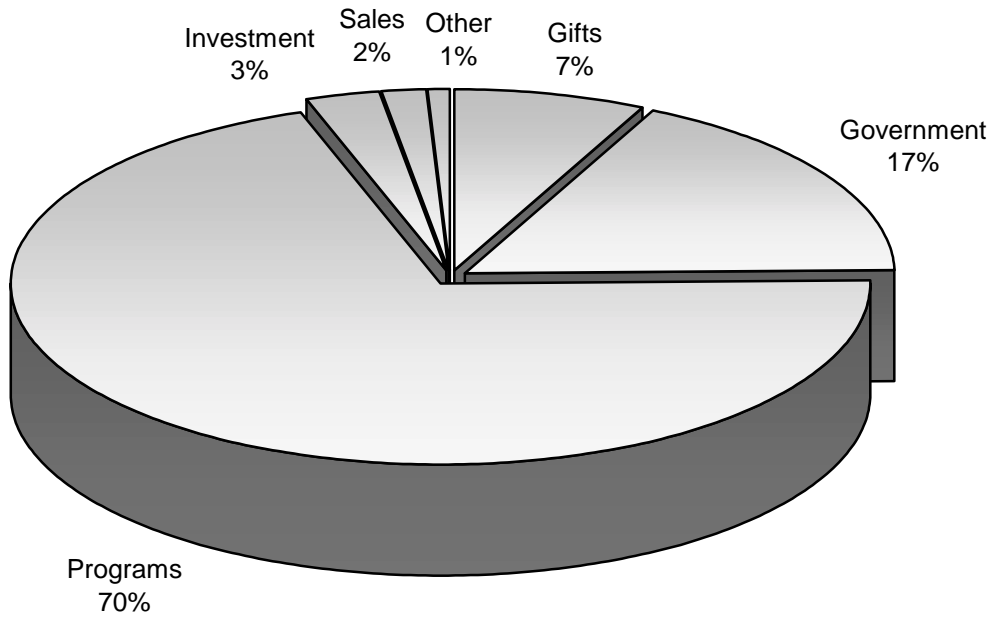


Chart 11



## Human Service Nonprofit Revenue Sources

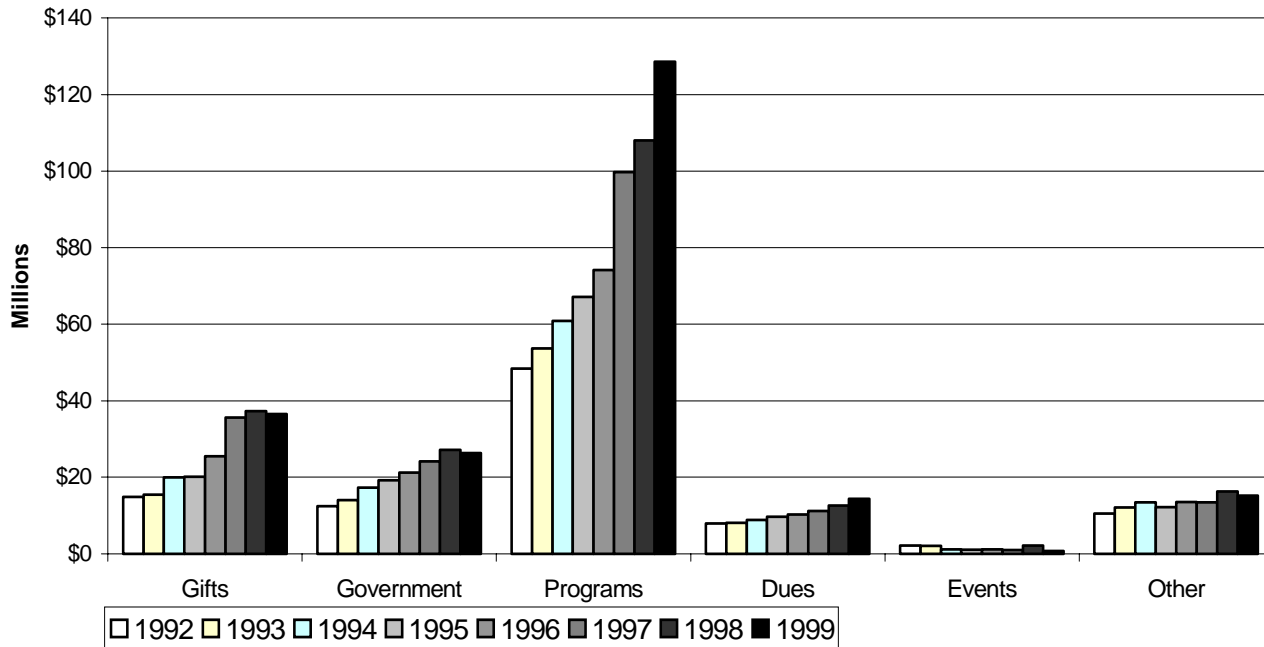


Chart 12

## Human Service Revenue -- 1999

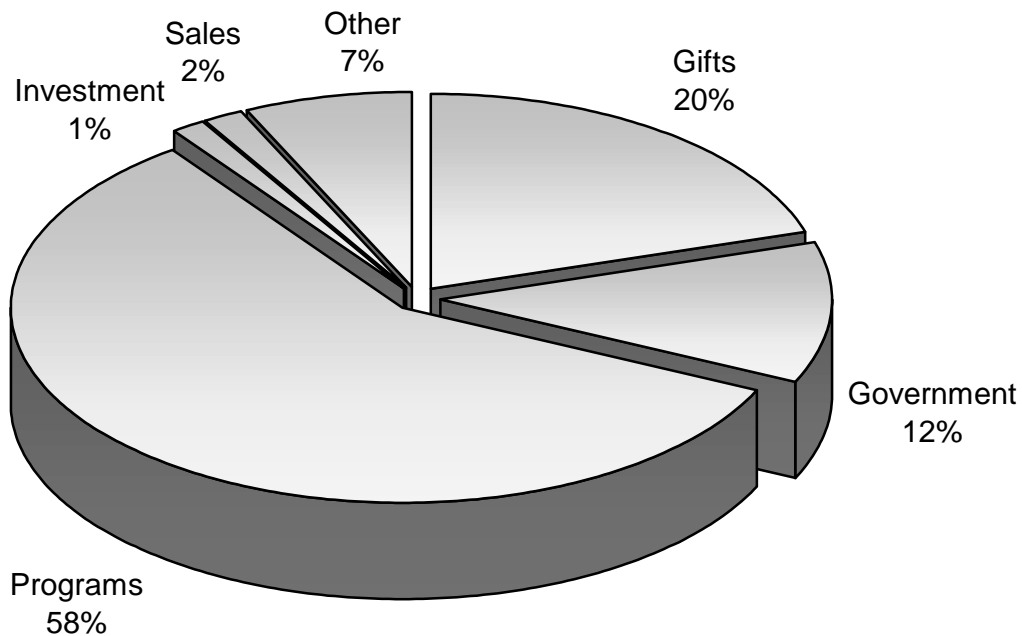


Chart 13



## Program Revenue Trend by Type of Nonprofit

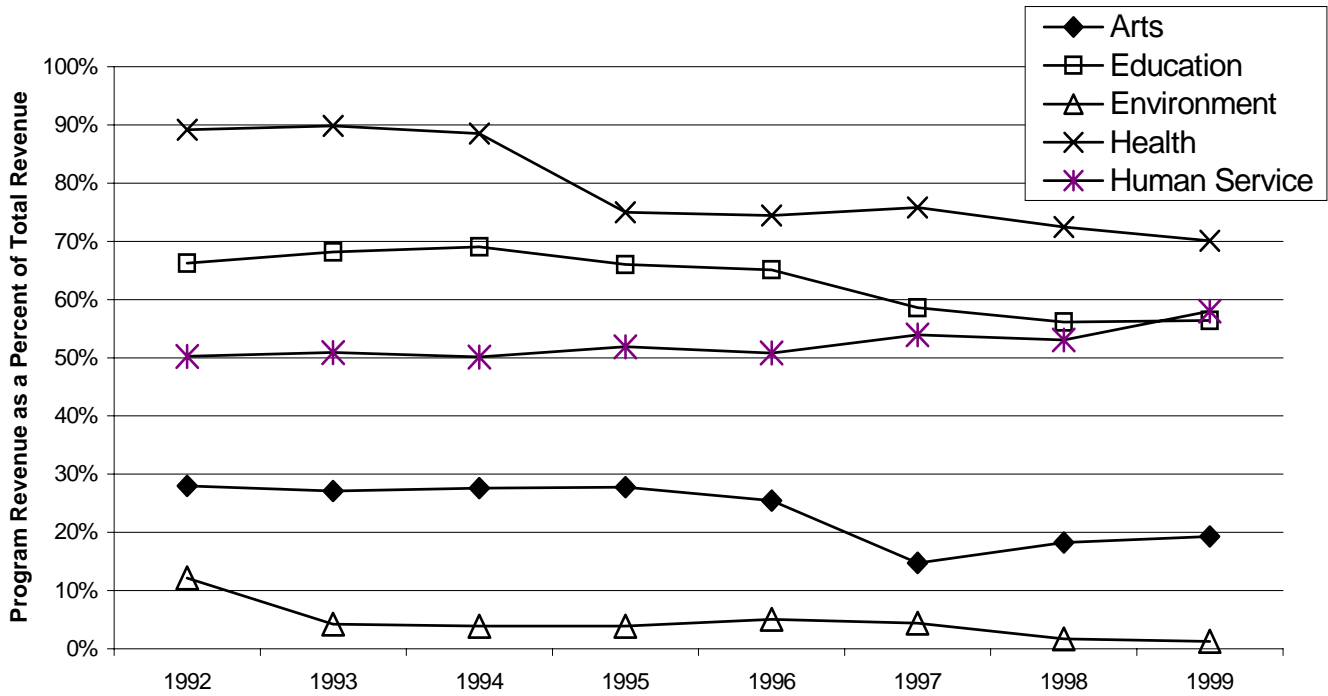
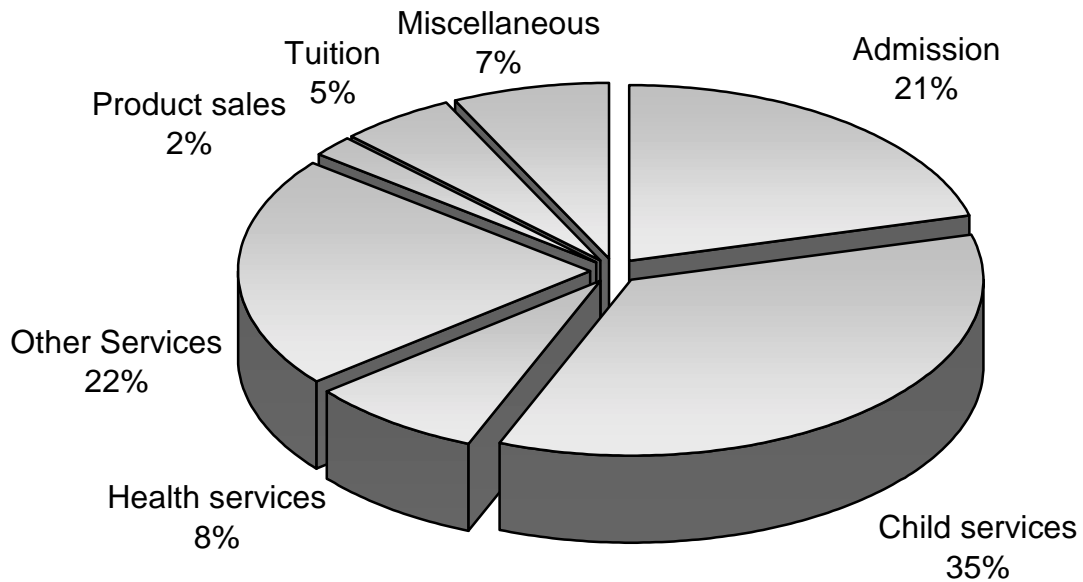


Chart 14

## Program Service Revenue Sources for Small\* Bellwether Nonprofits



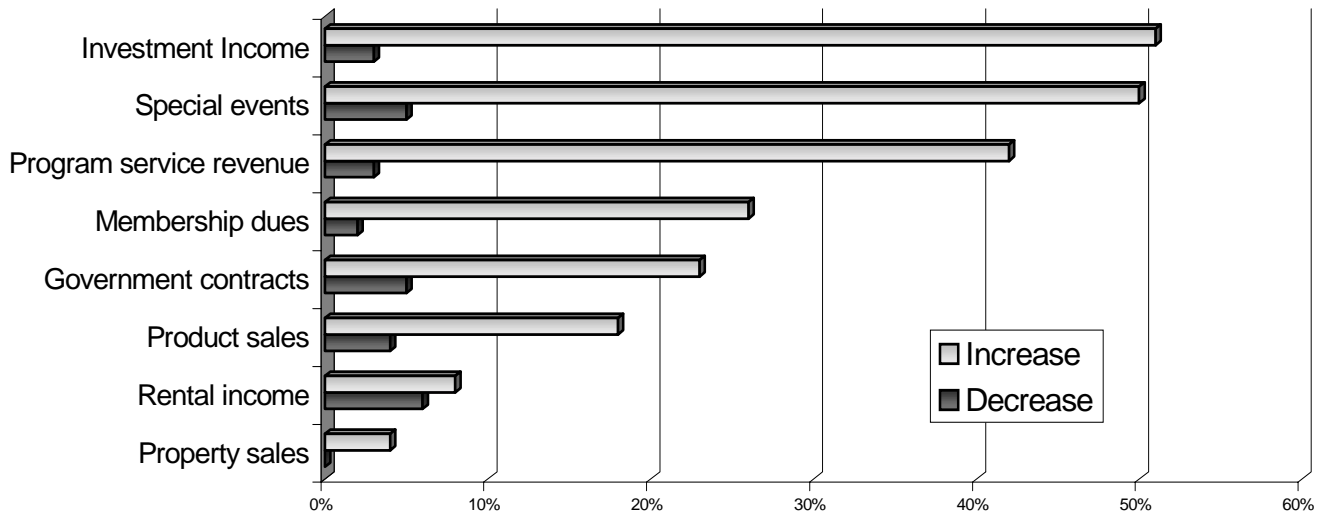
\*Less than \$5 million total revenue in fiscal year

Chart 15



Our study of 67 nonprofit organizations in metro Milwaukee finds that **earned income** and **entrepreneurship** are central to their success.

### Revenue Expectations of Milwaukee Area Nonprofits



Source: Public Policy Forum Survey of 67 bellwether nonprofits, summer 2000

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