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Community Research Institute-Johnson Center

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The Economic Impact of Nonprofits in Ottawa County



About the Community Research Institute

The Community Research Institute (CRI) empowers communities with quality research and data. CRI provides innovative applied research, generates information to improve decision-making, forecasts trends for effective problem solving, and measures results and reports outcomes of investments in community change.

CRI gathers, analyzes, interprets, and shares national and local data through partnerships with nonprofit and neighborhood groups in an effort to assist local and regional nonprofit leaders with decision making, grant writing, and program evaluation. This is research that makes a difference through a distinctly valuable blend of university rigor and community relevance.

The research team for this report consisted of:

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The nonprofit sector of the economy encompasses a range of diverse activities from running multi-billion dollar hospital systems to organizing an all-volunteer neighborhood block club. Nonprofits are widely acknowledged to create social and societal benefit. It is less widely known that the sector provides critical economic benefit at all levels of the U.S. and Ottawa County economies. The Johnson Center at Grand Valley State University estimates

that in 2006 nonprofits in Ottawa County had an economic impact of over \$650 million.

On the national level, the National Center for Charitable Statistics estimates the nonprofit sector of the U.S. economy to have annual gross receipts of nearly \$1.1 trillion. This is nearly 10% of the total 2005 Gross Domestic Product of \$11.7 trillion, as reported by the Bureau of Economic

Analysis. By examining the tangible economic transactions that the sector engages in, we can see that nonprofits not only enrich our society, they generate a large percentage of our Gross Domestic Product. The nonprofit sector is a major economic force in our local economy. This report seeks to measure how large an impact it has.

The Ripple Effect of Economic Activity

Each economic transaction can be compared to the metaphor of ripples on a pond. When an individual trades money for goods or services, the value of that money passes to the recipient, like a stone thrown into a pond. That merchant then uses the money to purchase other goods or services, adding a ripple to the pond. This process continues many times, and the value of the original money continues to grow.

In economic terms, the use and reuse of funds in the economy produces a multiplying effect. As monetary transactions are conducted over and over again, the value of a dollar has the potential to be multiplied many times as it moves through the economy from transaction to transaction. This multiplying effect is generated both directly by organizations purchasing goods and services, and at a degree of separation by the employees of those organizations spending their paychecks. An additional benefit of the multiplier effect is seen in job creation to provide the goods and services being purchased. This multiplier effect applies to all economic activity by all organizations and individuals, whether that activity takes place in the for-profit, nonprofit, or governmental sectors.



The U.S. Department of Commerce¹ estimates the multiplication effect on both dollars and employment as part of the Regional Input-Output Modeling System (RIMS II). Table 1 provides details of the multiplier effect on funds used by selected types of Ottawa County nonprofits for wages and expenditures. Entries in the Earnings column show the total change in household earnings for each additional dollar paid to households employed by that industry. For example, one dollar spent on payroll by an Ottawa County nonprofit in the Education category is expected to produce \$0.30 of additional benefits. For each additional job in that industry, the Employment column shows the total job creation (the equivalent of an additional 0.197 jobs in this case). RIMS II allows us to estimate that for every five jobs created by Ottawa County education-related nonprofits, one job is created in the for-profit sector.

TABLE 1

RIMS II Direct Effect Multipliers for Selected Nonprofit Industries in Ottawa County

| INDUSTRY | EARNINGS | EMPLOYMENT |
|--|----------|------------|
| Arts, Culture and Recreation | 1.319 | 1.238 |
| Education | 1.299 | 1.197 |
| Health and Human Services | 1.299 | 1.349 |
| Philanthropy and Foundations (<i>such as family foundations</i>) | 1.425 | 1.415 |
| Religious | 1.207 | 1.174 |

The \$650 Million Impact

By gathering data from the best sources available and applying the multiplier effect, the research team has constructed a methodology which allows us to calculate a reasonable estimate of the total economic impact of nonprofits in Ottawa County.

Ottawa County Has Over 1,100 Nonprofits

The IRS² recorded 1,104 distinct nonprofit organizations in Ottawa County in 2006. Of those, 860 are registered under section 501(c) (3) of the U.S. tax code, which classifies them as tax-exempt charities and foundations.

TABLE 2

501(c)(3) Nonprofit Organizations in Ottawa County

| TYPE OF NONPROFIT | NUMBER IN OTTAWA COUNTY |
|--|-------------------------|
| Arts, Culture & Recreation | 68 |
| Education | 180 |
| Environmental | 21 |
| Health & Human Services | 46 |
| Public & Societal Benefit (<i>such as employment services, civil rights, community improvement, and public safety</i>) | 109 |
| Philanthropy and Foundations (<i>includes Private, Community, Corporate, and School and University foundations</i>) | 125 |
| Religious or Faith-based | 295 |
| International and Other | 16 |
| Total | 860 |

¹ Specifically the Regional Economic Analysis Division, Bureau of Economic Analysis

² See the Business Master File for Exempt Organizations



Ottawa County Nonprofits Employ Over 13,000 People

In 2004, the U.S. Department of Commerce reported that Ottawa County had 139,939 jobs across all sectors of the economy. According to the Independent Sector Nonprofit Almanac, the nonprofit sector comprises 9.75% of all jobs in the United States. By assuming that 9.75% of all jobs in Ottawa County are in the nonprofit sector, we arrive at 13,644 jobs.

Ottawa County Nonprofit Employees Earn \$503 Million Annually

Data from the 2006 Michigan Nonprofit Compensation and Benefit Survey supports a payroll estimate of \$503 million. This is estimated by taking the average payroll by type of nonprofit in the state and multiplying that number by the number of nonprofit organizations of that type in Ottawa County. The data for the number of nonprofit organizations comes from the IRS. In addition, because the 2006 survey actually collected data for Fiscal Year 2005, 2006 wages were calculated assuming a 3% wage increase.

The Multiplier Effects

The weighted average of the dollar-value multipliers for the payrolls of all nonprofit organizations is 1.30. When multiplied by the estimate of \$503 million for the Ottawa County nonprofit payroll, we estimate that the total annual economic impact of Ottawa County nonprofits is \$650 million. Using the same methodology to estimate additional jobs, the weighted average of all employment multipliers of 1.24 multiplied by the estimate of 13,644 nonprofit jobs results in the estimate that an additional 3,276 jobs are created in the for-profit sector in Ottawa County as a direct result of nonprofit economic activity.

At the same time, the nonprofit sector is widely recognized as providing significant non-economic benefits to society. In many cases, the nonprofit sector provides services that cannot by their nature generate a profit - such as sheltering the homeless - or that do not impact the public good on a wide enough basis for significant government intervention - such as fostering the arts. While it is vital to recognize that nonprofits are a significant economic force in our society, it is equally important to acknowledge the quality of life benefits that the sector secures for us all.



Methodology

The procedures used to estimate the total Ottawa County nonprofit payroll rely on secondary data provided by the sources listed above. Although this methodology has certain weaknesses it can be conducted at a relatively low cost and yield results that are repeatable. It has the advantage of not relying on nonprofit organizations to complete any additional surveys about payroll or revenue information when that information is already collected by other organizations.

Despite these advantages, the payroll estimate given here requires a number of assumptions. The first assumption is that the data that nonprofits provide to the IRS and for the Michigan Nonprofit Compensation and Benefit Survey are accurate and consistently reported. There is no practical way to verify that accuracy, but more inherently reliable sources of data are not available. The second assumption is that Ottawa County nonprofit payrolls are similar to the

state averages that are computed from the state level data. Although a number of Ottawa County nonprofits do complete the Michigan Nonprofit Compensation and Benefit Survey, the sample size is not large enough to compute statistically valid estimates. This could be improved by taking a larger sample size in the county in future surveys.

Sources of Data

Data collected and analyzed for this study was obtained through the Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership at Grand Valley State University, the Michigan Jobs Commission, Independent Sector, the Bureau of Economic Analysis at the U.S. Department of Commerce, the National Council of Nonprofit Associations, the U.S. Department of Labor, the Michigan Nonprofit Association, the Internal Revenue Service, and the National Center for Charitable Statistics at the Urban Institute.



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