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Community Research Institute-Johnson Center

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*The Economic Impact of Nonprofits in Kent County*



# About the Community Research Institute

The Community Research Institute (CRI) provides innovative applied research to communities. CRI empowers communities with quality research and data, it generates information that will improve their decision-making process, it forecasts trends for effective problem solving, it 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, and assists 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:

Aaron Lowen, Ph.D.  
Assistant Professor  
Department of Economics  
Grand Valley State University

Bruce Nanzer, Ph.D.  
Director, Community Leadership Program  
Aquinas College

For additional information or a copy of the full report visit our website at [www.cridata.org](http://www.cridata.org)  
or contact us directly by calling (616) 331-7585.

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. It is widely acknowledged to create social and societal benefit. What is less widely known is that the sector provides critical economic benefit at all levels of the U.S. and Kent County economies. The Johnson Center at Grand Valley State University estimates that in 2005, nonprofits in Kent County had an economic impact of over \$2 billion.

This report is a follow up to 1999's The Billion Dollar Impact, which estimated

the total economic impact of the nonprofit sector in Kent County at \$1.8 billion<sup>1</sup>. It also estimated that local nonprofits employed 21,000 people directly, and supported an additional 11,000 jobs in the for-profit sector.

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 \$2.1 trillion. This is nearly 18% of the total 2005 Gross Domestic Product of \$11.7 trillion, as reported by the Bureau of Economic Analysis. An examination of the tangible economic transactions that the sector engages in shows that nonprofits not only

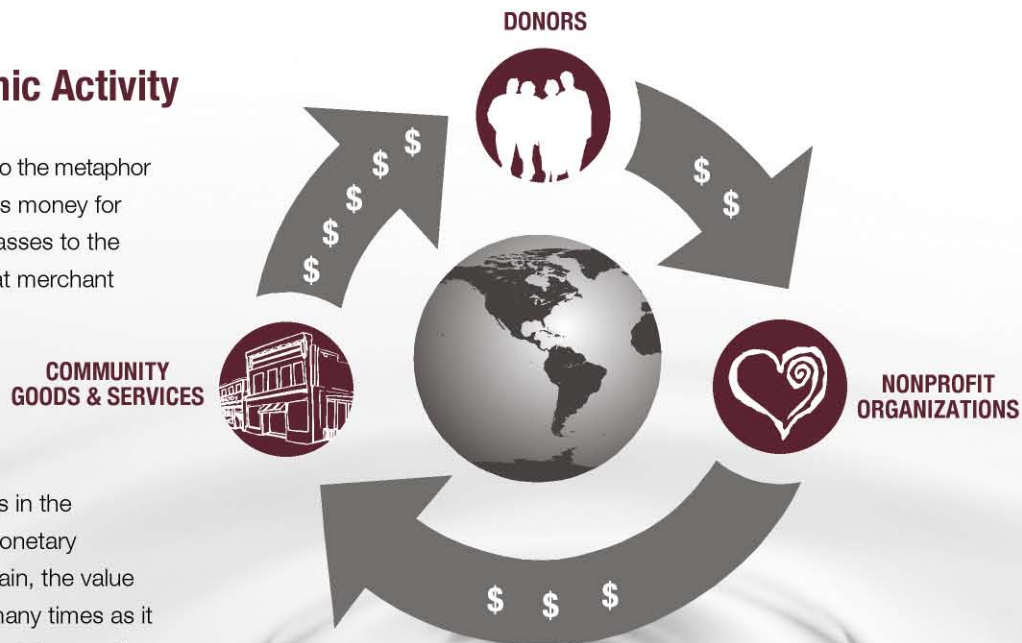
enrich our society, they generate a large percentage of our Gross Domestic Product.

At the local level, due to changes in the traditional manufacturing base of the West Michigan economy, the nonprofit Spectrum Health is the current largest employer in Kent County. Grand Valley State University and St. Mary's Health are also nonprofit organizations who are among Kent County's ten largest employers. 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 in 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, and governmental sectors.



<sup>1</sup> See <http://www.cridata.org> for report.



The U.S. Department of Commerce<sup>2</sup> 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 Michigan 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 a Michigan nonprofit in the Museums, Historical Sites, Zoos, and Parks category is expected to produce \$0.7912 of additional benefits. For each additional job in that industry, the Employment column shows the total job creation (the equivalent of an additional 0.6788 jobs in this case). RIMS II allows us to estimate that for every five jobs created by Michigan nonprofits, two jobs are created in the for-profit sector.



TABLE 1

RIMS II Direct Effect Multipliers for Selected Nonprofit Industries		
INDUSTRY	EARNINGS	EMPLOYMENT
Hospitals	1.5883	1.7344
Social Assistance ( <i>Except Child Day Care Services</i> )	1.5652	1.2437
Museums, Historical Sites, Zoos, and Parks	1.7912	1.6788
Grantmaking, Giving, and Social Advocacy Organizations ( <i>such as family foundations</i> )	1.8554	1.7728
Civic, Social, Professional and Similar Organizations	1.7198	1.4971

## The \$2.1 Billion Impact

The research team constructed a methodology which allows a calculation of a reasonable estimate of the total economic impact of nonprofits in Kent County by gathering data from the best sources available and applying the multiplier effect.

### Kent County Has Nearly 3,000 Nonprofits

The IRS<sup>3</sup> recorded 2,998 distinct nonprofit organizations in Kent County in 2005. Of those, 2,227 are registered under section 501(c)(3) of the U.S. tax code, which classifies them as tax-exempt charities and foundations.

TABLE 2

Nonprofit Organizations in Kent County	
TYPE OF NONPROFIT	NUMBER IN KENT COUNTY
Religious or Faith-Based	558
Education	553
Public & Societal Benefits ( <i>such as employment services, civil rights, community improvement, and public safety</i> )	393
Foundations ( <i>includes Private, Community, Corporate, and School and University foundations</i> )	329
Health & Health-Related Services	151
Arts, Culture & Humanities	137
Environmental	48
International	28
Other	30

<sup>2</sup> Specifically the Regional Economic Analysis Division, Bureau of Economic Analysis  
<sup>3</sup> See the Business Master File for Exempt Organizations

### *Kent County Nonprofits Employ Over 33,000 People*

In 2004, the U.S. Department of Commerce reported that Kent County had 354,233 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. Assuming 9.75% of all jobs in Kent County are in the nonprofit sector, we arrive at 33,652 jobs.

### *Kent County Nonprofit Employees Earn \$1.33 Billion Annually*

Data from the Michigan Nonprofit Compensation and Benefit Survey 2006 supports a payroll estimate of \$1.33 billion. This is estimated by taking the average payroll by type of nonprofit and multiplying that number by the number of nonprofit organizations of that type in Kent County. The data for the number of nonprofit organizations comes from the IRS.

### *The Multiplier Effects*

The weighted average of the dollar-value multipliers for the payrolls of all nonprofit organizations is 1.56. When multiplied by the estimate of \$1.33 billion for the Kent County nonprofit payroll, we estimate that the total annual economic impact of Kent County nonprofits is \$2.1 billion. Using the same methodology to estimate additional jobs, the weighted average of all employment multipliers of 1.44, along with the estimate of 33,652 nonprofit jobs, we estimate that an additional 14,806 jobs are created in the for-profit sector in Kent 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 very 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 Kent County nonprofit payroll differs from the methodology used in The Billion Dollar Impact. This report relies on secondary data provided by the sources listed below. In contrast, the 1999 report used data collected through a direct telephone survey of county nonprofits. Although there are pros and cons to each methodology, the current methodology can be conducted at a lower cost and yield results that are more repeatable. It also has the advantage of not relying on nonprofit organizations to complete an additional survey about payroll information, when one is already conducted on a consistent basis in the state and local region.

Despite these advantages, the payroll estimate given here requires a number of assumptions. It first assumes 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 Kent County nonprofit payrolls are similar to the state averages that are computed from the state level data. Although a number of Kent 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 if a larger number of respondents provide data 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 Upjohn Institute, the Right Place, the Internal Revenue Service, and the National Center for Charitable Statistics at the Urban Institute.





**Dorothy A. Johnson Center  
for Philanthropy and Nonprofit Leadership**

288 C Richard DeVos Center  
401 Fulton Street West  
Grand Rapids, MI 49504-6431  
tel: 616.331.7585  
Fax: 616.331.7592

[www.johnsoncenter.org](http://www.johnsoncenter.org)

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