



For more information:

Rob Henken
President, Public Policy Forum
414-276-8240 or 414-708-4392 (c)
rhenken@publicpolicyforum.org

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Greater Milwaukee's Nonprofit Sector Characterized by Robust Growth but Mounting Competition

In a new report analyzing long-term revenue trends in Greater Milwaukee's nonprofit sector, the Public Policy Forum finds that the number of nonprofit organizations has grown dramatically thanks to increased contributions from individuals, foundations, and other sources. The report also raises questions, however, about diminishing nonprofit capacity and the long-run viability of larger programs as a result of shrinking per-organization revenue.

"On the whole, it is reassuring to find that the nonprofit sector has expanded considerably in the past 25 years and that the philanthropic contributions that support it have similarly increased," says Phillip Laper, the Forum's 2013-14 Norman N. Gill Fellow and lead author of the report. "At the same time, policymakers and civic leaders should heed the concerns raised by our analysis regarding the ability of individual nonprofit organizations to maintain an appropriate scale in the face of growing competition for funding."

The report examines trends in revenues and contributions for public charities in the four-county Milwaukee Metropolitan Statistical Area from 1989 to 2011 (the latest year for which complete data sets are available). Trends are identified for the entire nonprofit sector and also broken down into nine nonprofit subsectors. In addition, the report analyzes the sensitivity of contributions to certain economic and fiscal policy factors.

Key findings include the following:

- **The nonprofit sector is growing in terms of overall revenue, contributions, and number of organizations.** In 2011, total revenue for public charities in Greater Milwaukee was \$3.68 billion, an increase of 134% from 1989. Contributions increased by 193% to \$1.86 billion over the same period. Meanwhile, the number of public charities increased by 183%, growing from 824 to 2,333 organizations. This is a change from one organization per 1,603 MSA residents to one organization per 646 residents.
- **The size of the average organization, measured by revenue, has shrunk by 17% since 1989.** This trend is caused by the fact that the number of organizations has grown faster than aggregate revenue. As more organizations compete for funding, the amount received by each organization falls. Whereas in 1989 the average nonprofit had revenues of \$1.9 million, that figure declined steadily to \$1.57 million by 2011.
- **Increases in the level of contributions have been driven primarily by rising incomes and growing asset prices.** An empirical model developed as part of the Forum's research reveals that charitable contributions are sensitive to changes in GDP and asset prices. A 1% increase in GDP translates to a nearly identical increase in contributions, with a decrease in GDP having the opposite effect. Additionally, a 1% increase in the value of the S&P 500 increases charitable contributions by 0.51%, holding all else constant.
- **Increases in income taxes are found to have a deleterious effect on charitable contributions.** The model also finds that contributions are inversely related to state and federal income tax rates. If income tax revenue increases by 1% as the result of a higher tax rate, contributions to local public charities are expected to decrease by 0.38%. Local property tax rates were not found to affect the level of contributions received by area nonprofits.

A key question raised by the report is whether, as organizations become smaller because of diminished per-organization revenues, there is a threat that Greater Milwaukee's nonprofit infrastructure will begin to erode. The report notes that even if sufficient funding can be secured for large programs, it is possible that no suitable nonprofit organizations will be in a position to administer them.

"The downward trend in per-organization revenues also raises questions about nonprofit capacity," says Laper. "As organizations experience falling revenues and scale back the scope of their services, some programs may be eliminated, leaving portions of the population who are unable to secure those services in the for-profit sector with limited options."

The Forum plans to release research later this year that will delve more deeply into philanthropic capacity to support public charities in one specific category (arts, culture, and entertainment) and the overall prognosis for future charitable giving in Greater Milwaukee.

The full report can be downloaded at the Forum's web site, www.publicpolicyforum.org. The report was produced under the Forum's Norman N. Gill Fellowship, an initiative funded by the family of Norman N. Gill, the organization's director from 1945 to 1984. The Fellowship offers a Milwaukee-area graduate student the opportunity to conduct a policy research project under the tutelage of Forum staff while engaged in academic studies.

Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of public policy issues.

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