



theforakergroup

Report on the Alaska Nonprofit Economy

Executive Summary January 2011

This report is the second in a series that describes the significant impact of the charitable nonprofit sector in Alaska's economy. The first was published in 2007. The reports are presented by The Foraker Group and compiled by the University of Alaska Anchorage Institute of Social and Economic Research.

Alaska is a better place to live because of its nonprofit sector, whose organizations pursue a broad range of missions contributing to the health and well being of everyone who lives, works and visits here. The significant impact of Alaska's nonprofit sector can be seen in all parts of Alaska's economy – in our local communities, across our diverse regions, throughout the state. It is essential that Alaska's residents, policy makers, business and community leaders understand the nonprofit sector's economic impact on the people who call Alaska "home." This report will assist with that understanding.

– DENNIS G. MCMILLIAN
President and CEO
The Foraker Group

*The full version of this
report is available at
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Nonprofit Sustainability

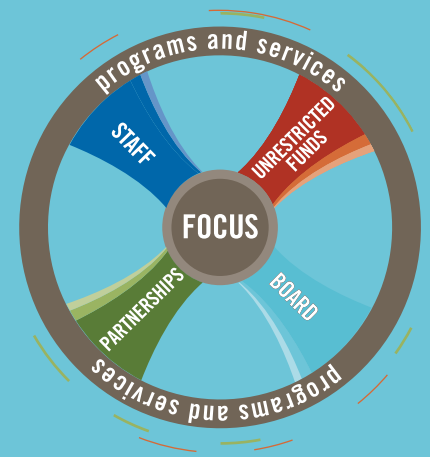
For some time, now, we have encouraged Alaska nonprofits to seriously consider their sustainability. Now more than ever, sustainable nonprofits are the ones with the best opportunity to succeed.

Through our research and work with nonprofits, we have articulated the elements that are important in maintaining a sustainable organization. **The Foraker Group Nonprofit Sustainability Model®** – depicted in this diagram – guides our own organizational behavior and provides the very foundation of our work with the sector.

Focus is the “hub” of sustainability – knowing who you are and where you’re going are critical to long-term success. Without focus and the discipline to follow a plan, organizations have a difficult time achieving their missions.

Focus is supported by the “spokes” of **unrestricted funds** both income and reserves to carry out the organization’s mission; **board/staff balance** where the board and CEO share power, trust and respect; and **partnerships** where organizations make best use of resources.

When all the spokes in this flywheel work in balance, organizations can proceed on the journey of sustainability and more effectively deliver programs and services.



Achieving positive change in the sector requires Foraker to stay strong, nimble and relevant. As we learn from our own practice of sustainability, we seek to help others, too. We don’t prescribe an organization’s course but help leaders ask the right questions so they can chart their own journey. Then, just as with a flywheel, momentum in the sector grows, more organizations join in, change continues, and ultimately we reach our long-term goal:

A sustainable nonprofit sector that is strategic and economically viable, that serves the needs of Alaska communities and that advocates for its own future.

Reviewing the data with this model in mind, we found two elements of sustainability that are out-of-balance – human resources (staff/board) and unrestricted funds. We don’t have enough people to lead, and our organizations do not have enough unrestricted funds to perform on their mission.

Key Findings

The Alaska Nonprofit Economy Report: 2010 is the second in a series of comprehensive examinations of the impact of the nonprofit sector on Alaska’s economy. The first was published in 2007. Both studies were commissioned by The Foraker Group and developed with the Institute of Social and Economic Research (ISER) at the University of Alaska Anchorage.

This executive summary represents the highlights of our findings, which were analyzed by both Foraker and ISER. The report focuses on the charitable portion of the nonprofit sector, as well as employment and economic impact of the sector overall.

For the most part, the data for the current report is based on 2007 information, the most recent year for which complete statistics are available. The previous report, published in 2007, covered data from 2003 and 2004. Comparisons between the two reports are made when we believe it is useful for readers.

The nonprofit sector is a significant part of Alaska’s economy.

The key findings support the conclusion that the sector represents a major part of the state’s economy:

- Total nonprofit expenditures as reported here show an increase from those reported in 2007.
- The percentage of the state’s workforce employed by Alaska nonprofits also increased.
- Charitable giving grew. However, optimism over that growth needs to be tempered because data was gathered before the economic recession began in 2008.

While it is clear from this report that the nonprofit sector has a significant impact on the state’s economy, there is reason for some concern that the sector may be growing less resilient:

- The number of nonprofit organizations operating in Alaska has grown significantly since the 2007 report, placing a strain on the sector’s already-taxed infrastructure to support all of them.
- The sector’s dependence on government grants has dropped. However, it remains high compared to the rest of the country.
- Corporate and foundation giving continue to be disproportionately high compared to the national average.

Alaska's Nonprofit Sector: Its Size and Composition

The nonprofit sector in Alaska is comprised of non-governmental organizations commonly referred to as "501c" federally recognized nonprofit corporations. These entities are exempt from corporate income tax and enjoy a variety of other tax benefits. As was noted in the 2007 ISER report, Alaska's nonprofit sector remains large and diverse and continues to grow.

Sector growth

The number of nonprofit organizations operating in Alaska as reported in 2010 has grown by close to 17% in just three years, now totaling 7,027 compared to 6,000 as reported in 2007. Using data from the 2010 Census, which sets Alaska's population at 710,000, one nonprofit exists for every 100 Alaskans. That compares to the 2007 ISER study, which found one nonprofit for every 110 Alaskans. Looking at this from another perspective, one nonprofit exists for every 70 Alaska adults who are legally able to serve on a nonprofit board.

With such a large number of nonprofits in a state with a small and widely disbursed population, the obvious challenge is finding enough people who are both interested and qualified to serve on boards and work as staff. This presents significant challenges to maintaining sustainable organizations.

Registered charitable nonprofits operate in virtually every Alaska community. However, the vast majority of them - nearly 75% - are found in Alaska's urban centers of Anchorage, Fairbanks, Juneau, Matanuska-Susitna Valley and the Kenai Peninsula. Within the urban areas, most organizations are located in Anchorage and Fairbanks, with many of those operating statewide.

The remaining 25% are located in Alaska's rural areas, with approximately 15% in remote rural areas. While the actual number of nonprofits in Alaska's remote rural regions is small, they have a significant impact on local economies, accounting for as much as 50% or more of spending and employment in their area.

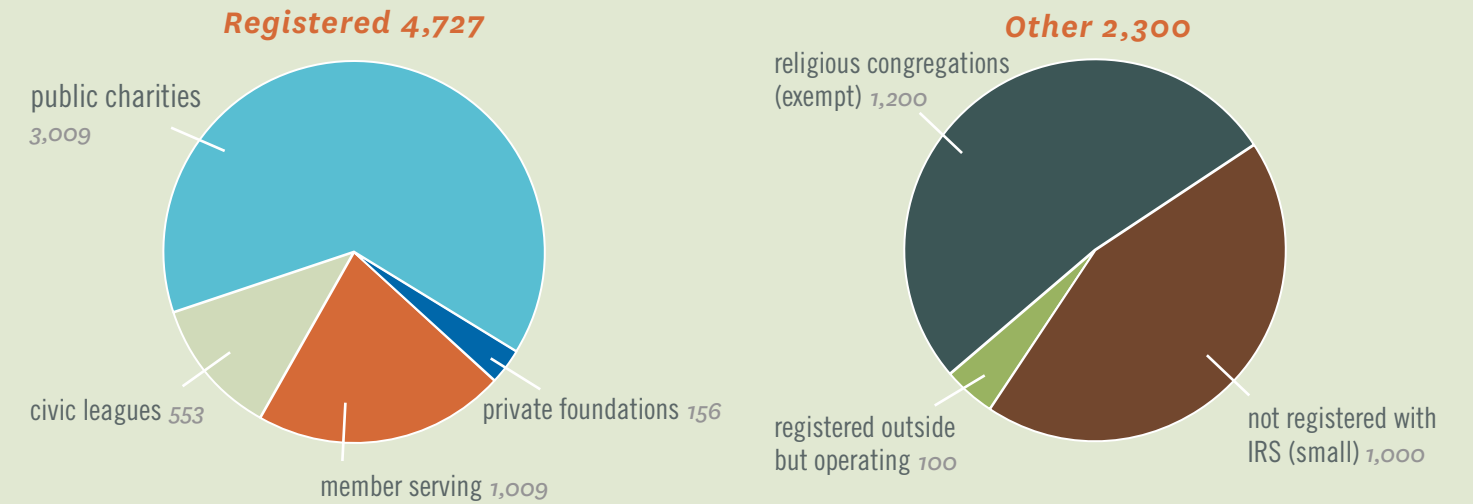
Sector composition

In the current report, Alaska reached a total of 7,027 nonprofits operating in the state when three additional factors are considered:

1. One hundred significantly large nonprofits are registered in other states, but operate in Alaska. They are represented in the total count.
2. Approximately 1,000 additional organizations are not required to register with the IRS because they have annual revenues less than \$25,000. They, too, are included in the total count.
3. Another 600 of Alaska's approximately 1,200 religious organizations are included - the other 600 have legally chosen not to register and are not part of this report.

However, not all 7,027 organizations are part of the analyses included in these pages. Like the 2007 report, this one focuses on the registered nonprofits operating in Alaska, including those larger organizations registered in other states but maintaining operations here like Providence Hospital. The report excludes all religious congregations, but not "faith-based" social service organizations like Catholic Social Services. It also excludes nonprofits that are too small to be registered with the IRS.

Number of Alaska nonprofits in 2010 - registered compared to other



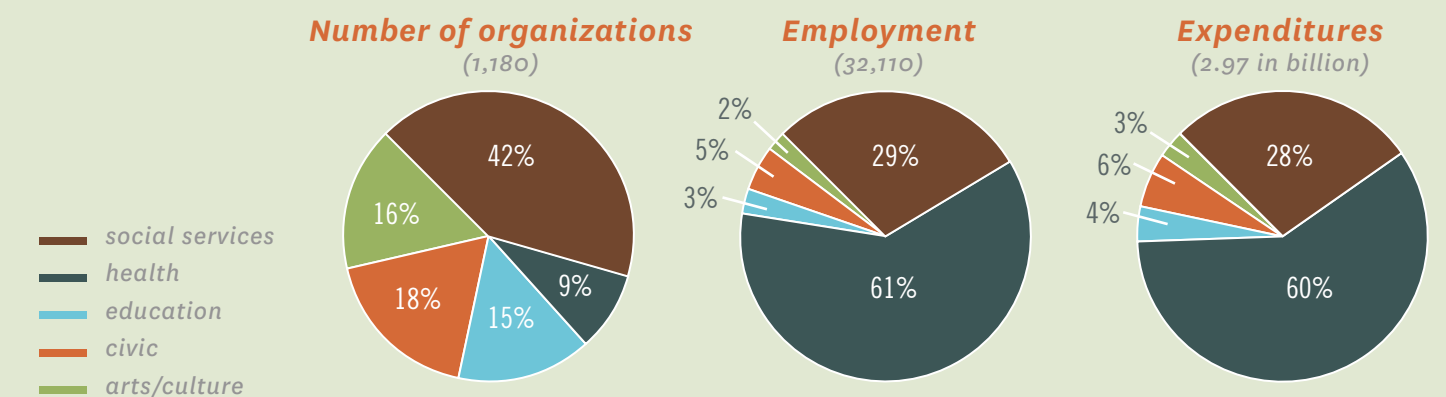
Source: Count of registered nonprofits from National Center for Charitable Statistics website, 8/17/10. Count of other estimated by author.

As an indication of the sector's growth, one only has to look at the increase in registered nonprofits in Alaska. In 2004, 4,765 Alaska organizations were registered with the IRS compared to 5,327 in 2007 - that's an increase of 10% in three years. More notable, however, is the total number of nonprofits operating in Alaska - 7,027, or a 33% increase. Alaska's nonprofit sector has grown along with the national nonprofit sector, which over the last ten years has increased from a little over 1.2 million to 1.5 million - more than a 35% increase. According to the

Urban Institute, the nation's nonprofit sector continues to grow faster than the business and government sectors. That is clearly the case in Alaska as well.

Total employment for Alaska public charities was 32,000. Although small in number, health nonprofits employ the most people and have the highest expenditures.

Composition of Alaska public charities



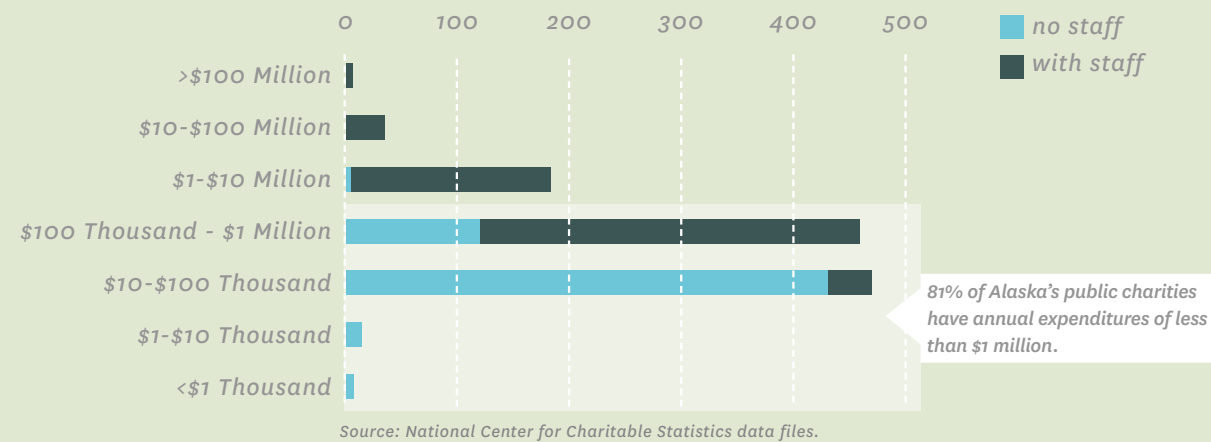
Source: National Center for Charitable Statistics data files.

Alaska's Nonprofit Sector: Its Size and Composition *continued*

Organizational expenditures and staffing

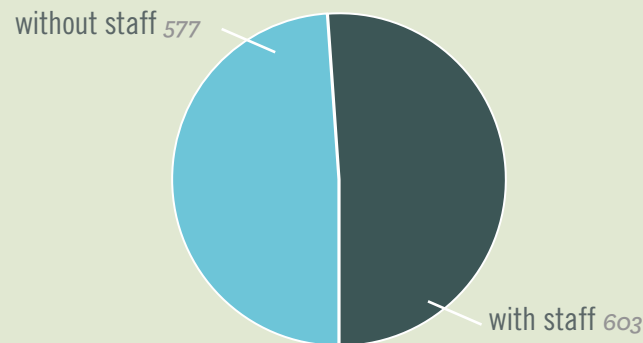
The majority of Alaska public charities are small, with budgets of less than \$1 million. Nearly half have budgets under \$100,000. This breakdown has changed little since the 2007 report.

The relationship between Alaska public charity staff and expenditures

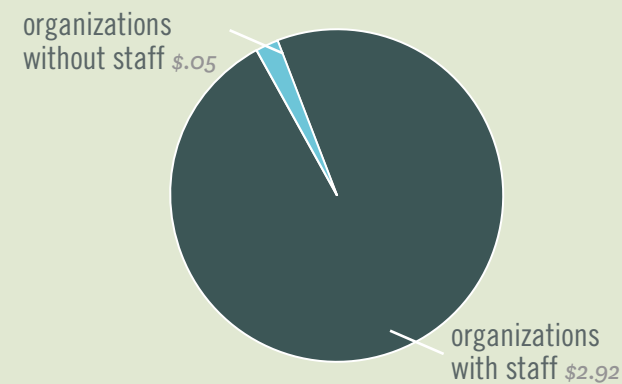


Number of organizations

(1,180)



Expenditures in billions

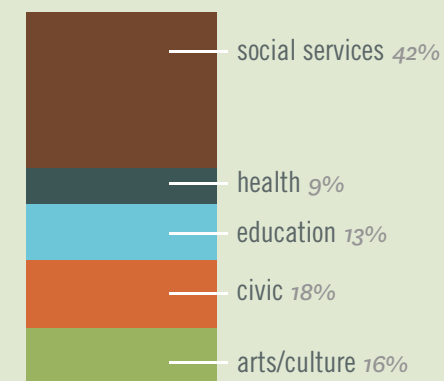


The lack of staff is a key factor threatening nonprofit sustainability. The vast majority of Alaska's smaller nonprofits have no staff – relying only on volunteers for momentum and institutional knowledge.

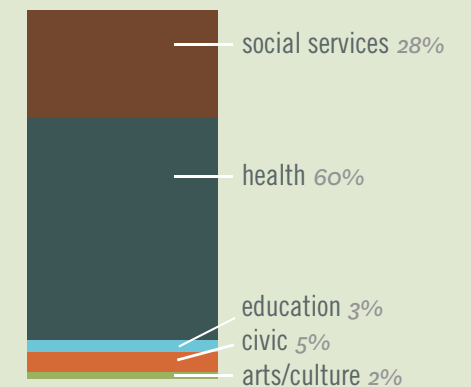
Public charity composition by type and staff

- social services
- health
- education
- civic
- arts/culture

Number of organizations



Employment



Source: National Center for Charitable Statistics data files.

Public charities operating with staff account for roughly 98% of all expenditures. The four largest nonprofits operating in Alaska (Providence Health and Services Alaska, Alaska Native Health Consortium, Yukon-Kuskokwim Health Corporation and Banner Health/Fairbanks Memorial Hospital-Denali Center) account for over 37% of total nonprofit expenditures at close to \$1.1 billion.

The top ten largest public charities are hospitals and comprehensive healthcare providers that serve primarily Alaska Native communities – 6 out of 10 are Alaska Native health and human services nonprofits.

Taken together, Alaska's 501c3 public charities accounted for nearly \$3 billion in annual expenditures (out of a total of \$4.5 billion), though public charities without staff account for a very small share (2%) of those expenditures.

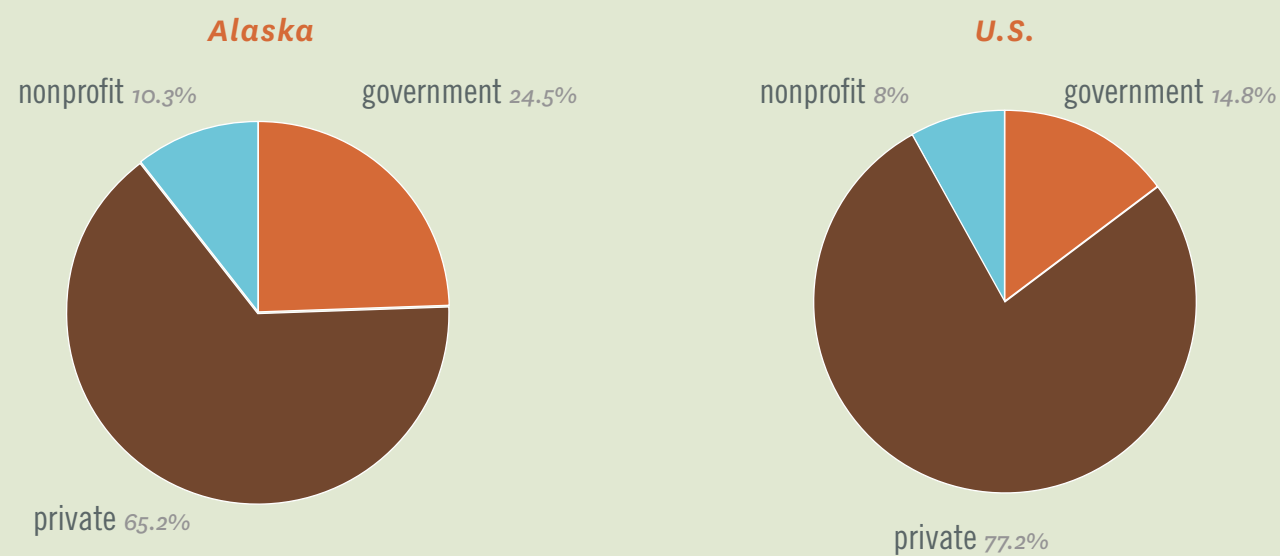
Viewing this data through a sustainability lens, it's notable that Alaska has a high number of arts and culture organizations with an extremely small number of staff, while we find a small number of health organizations with a large number of staff.

Alaska's Nonprofit Sector: Its Size and Composition *continued*

Employment and wages impact

The nonprofit sector in Alaska is a major employer and the proportion of nonprofit employees as part of the total Alaska workforce remained relatively stable between the 2007 and 2010 reports. The 2007 report noted the dynamic and consistent growth of the sector, with a high percentage of Alaskans working in nonprofits compared to the rest of the country. That trend has not changed.

Civilian employment in 2009



Source: US Department of Commerce, American Community Survey 2009, Table 84206.

When viewed by regions - urban, rural, and remote rural - the percentage of workers in the sector climbs, reaching roughly 12% in remote rural Alaska and as high as 50% of all employment in some communities.

In 2007, public charities employed 32,110 workers, or close to 90% of total employment in the sector. The number was just over 27,000 in 2004. The biggest growth took place within public charities, which overall saw a 14% growth. Within that category, each sub-sector performed quite differently.

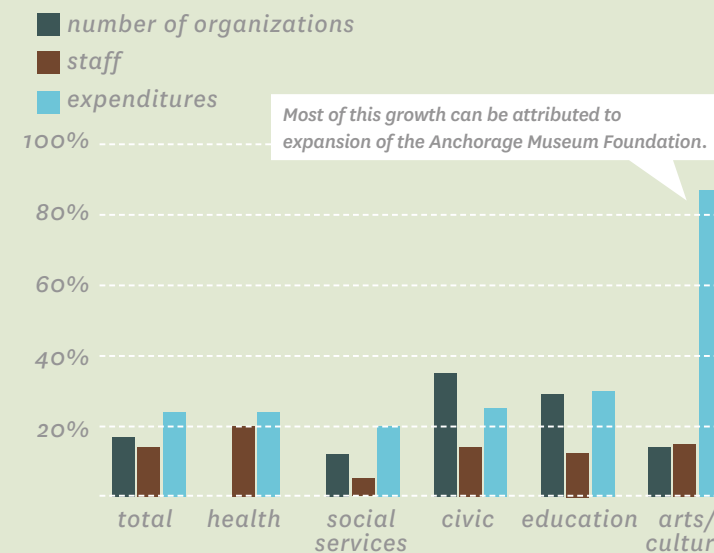
- Education organizations increased by 13%.
- Health related organizations increased by 20%.
- Arts/culture organizations increased by 15%.
- Civic organizations increased by 14%.
- Human services organizations increased by 5%.

Nonprofit workers are most prevalent in the health and human services sub-sectors, with over 60% employed by higher wage health organizations, and 30% in human services. The next sub-sectors in line are much smaller in both job numbers and payroll impacts.

Member serving 501c3 and 501c4 organizations employed less than 10% of the total nonprofit workforce.

The largest nonprofit organizations are among the largest overall employers in the state, and that percentage is increasing. In 1994, 14 public charities existed among the 100 largest private employers - that number increased to 19 in 2005 and included two large utility cooperatives. In 2009, the number of nonprofits on the list of the top 100 employers had grown to 22.

Alaska public charity growth - 2003-2007



Source: National Center for Charitable Statistics data files.
Note: Number of health organizations unavailable in the past study.

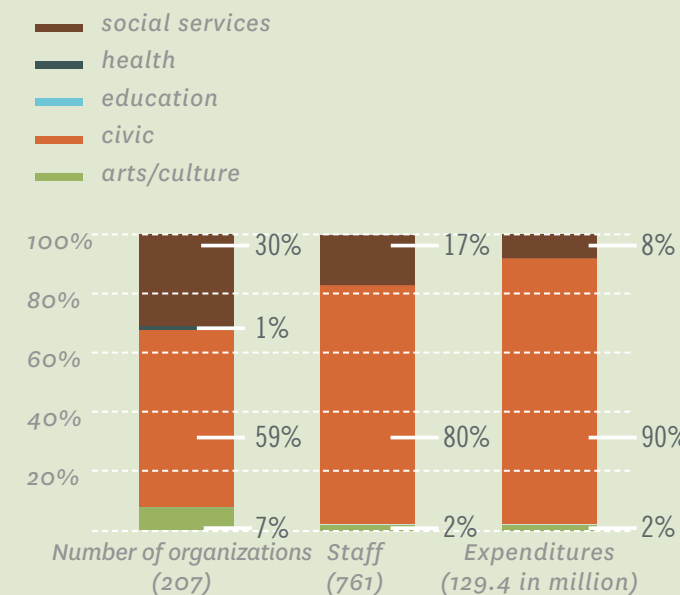
Overall, changes occurred between the 2007 and 2010 reports in number of organizations, staff and expenditures:

- Civic organizations saw significant growth - 30% in three years.
- Education organizations also increased - at just below 30%
- Arts/culture and social services experienced the smallest growth in number of organizations - both at approximately 10%.

Alaska's civic leagues and social welfare organizations

There were 207 reporting civic league and social welfare organizations in Alaska in 2007, with combined expenditures of \$129 million. This compares to 2004 when there were 168 reporting organizations, with combined expenditures of nearly \$103 million.

Civic leagues and social welfare organizations - 501c4



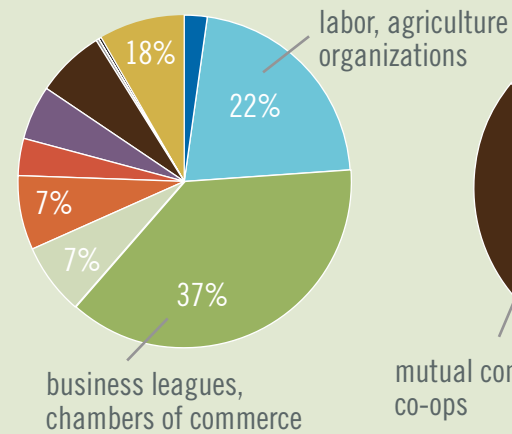
Source: National Center for Charitable Statistics data files.

Revenues of civic league and social welfare nonprofits, such as Lions Clubs, Rotary, and Veterans of Foreign Wars, are most likely to come from program services and government fees and contracts (55%). Contributions, gifts and grants account for only 6% of revenue.

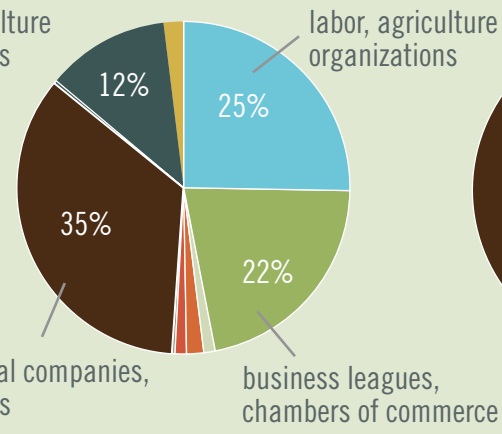
In Alaska, nonprofit jobs continue to grow - from 7% of the total workforce in 1990 to more than 10% in 2009.

Member serving nonprofits

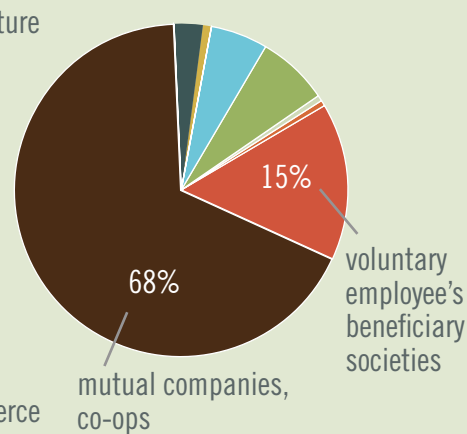
Number of organizations



Employment



Expenditures



- 12 Title-holding companies, 5 staff, \$3.1m in expenditures
- 106 Labor, agriculture organizations, 653 staff, \$70.1m in expenditures
- 184 Business leagues, chambers of commerce, 559 staff, \$88.8m in expenditures
- 33 Social and recreational clubs, 32 staff, \$5m in expenditures
- 36 Fraternal beneficiary societies, 42 staff, \$8.5m in expenditures
- 18 Voluntary employee's beneficiary societies, 27 staff, \$193.4m in expenditures
- 26 Domestic fraternal beneficiary societies, 10 staff, \$2.5m in expenditures
- 32 Mutual companies, co-ops, 900 staff, \$860.7m in expenditures
- 1 Cemetery company, 8 staff, \$.5m in expenditures
- 1 State-chartered credit union, 309 staff, \$36.7m in expenditures
- 1 Supplemental unemployment benefit trusts, 0 staff, \$.1m in expenditures
- 40 Post or organizations of war veterans, 45 staff, \$7.1m in expenditures

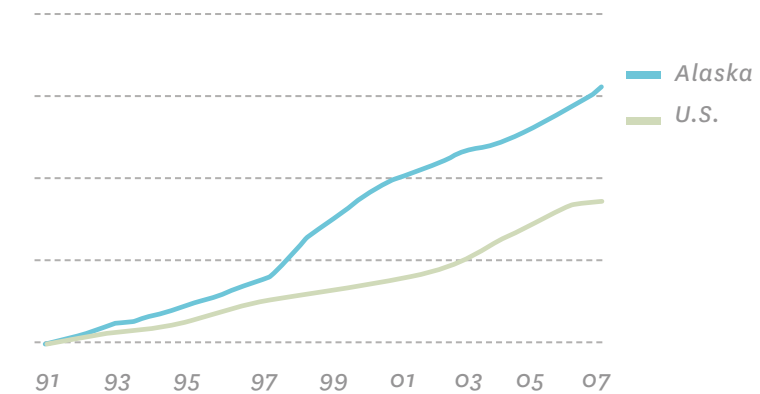
Member-serving nonprofits generated expenditures of \$1.3 billion in 2007 - representing the second largest category of expenditures. These organizations fall into a number of different categories. The largest - utility cooperatives (electric and telephone) - account for more than \$850 million of the total. This is a significant increase (nearly 40%) over 2004 expenditures of \$516 million.

Nonprofit Finances and Economic Impact

Nonprofit revenue

The nonprofit sector has a notable impact on Alaska's economy as demonstrated by overall nonprofit expenditures (including payroll) and assets.

Public charity revenues index of growth 1991=1



Source: National Center for Charitable Statistics website 10/21/10.

The trend toward the growth of nonprofit revenue continued in Alaska between the 2007 and 2010 studies. Revenues for Alaska's service-providing nonprofits (excluding revenues of foundations and other funding intermediaries which flow through to service providers) were slightly over \$4.6 billion in 2007, an increase of close to 25% over the \$3.5 billion in revenue reported in the 2007 study.

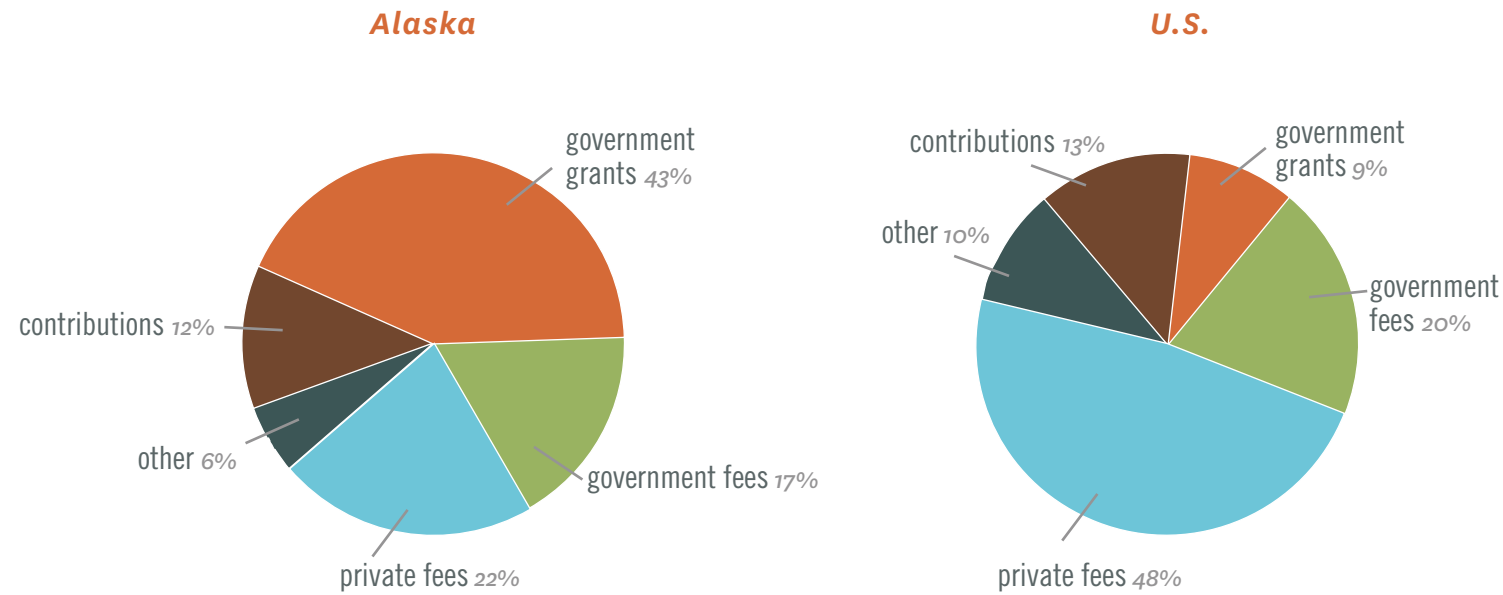
Of that number, public charities accounted for most of it, at just more than \$3.1 billion. That compares to \$2.5 billion in 2004 - a 20% increase.

Of the \$3.1 billion in revenue for public charities in 2007, the vast majority comes from three sources, listed by their proportion of the total:

1. Earned income, including fees, contracts and charges for services
2. Government grants
3. Individual, corporate and foundation contributions

Public charity composition of revenues

The breakdown for all sources of revenue is shown in these graphs – with a comparison between Alaska and the U.S.



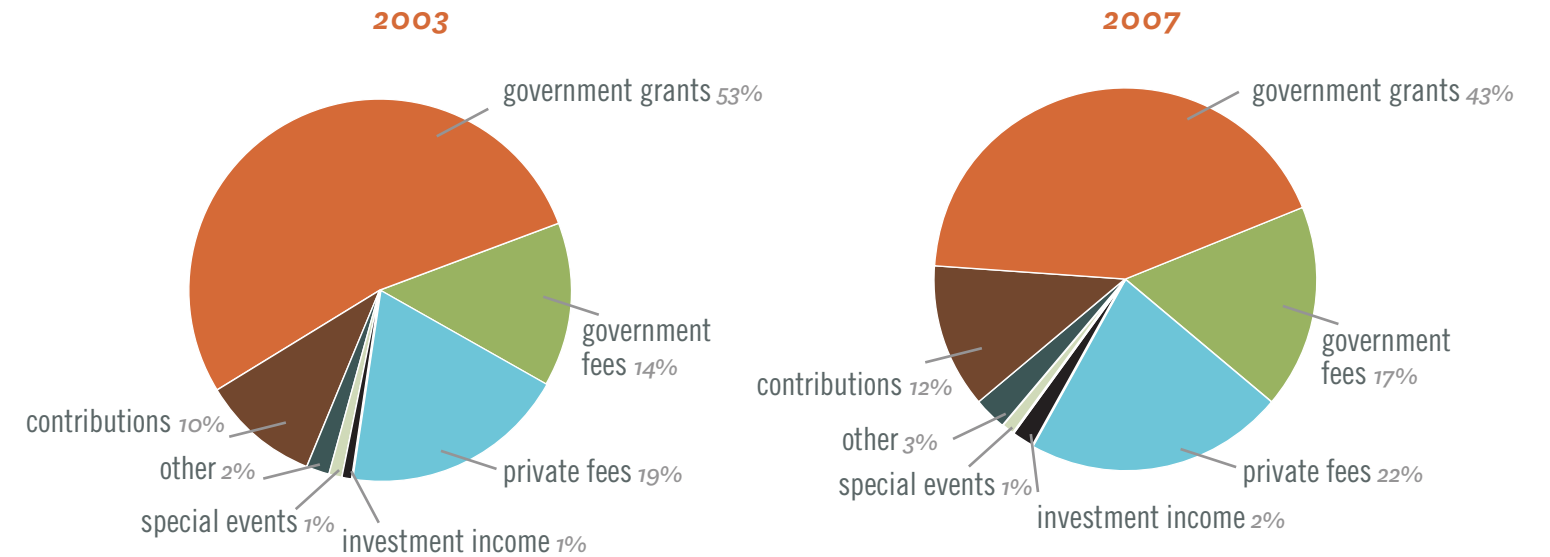
Source: National Center for Charitable Statistics core files, Giving USA 2008, Urban Institute, Profiles of Individual Charitable Contributions by State 2008 and Nonprofit Sector in Brief, and ISER estimate.

Alaska public charities depend much more heavily on federal government funding than charities in the rest of the nation. Of the total federal support for Alaska nonprofits, the 43% that comes from grants will prove most challenging. Grant funding is not reliable, which is especially troubling for the sector when one considers the lower level of revenue Alaska nonprofits generate from earned sources compared to the rest of the country.

Alaska is on par with the U.S. in generating contributed revenue for nonprofits. However, this is only because Alaska nonprofits receive an overly large proportion from corporate gifts, masking our deficiency in raising individual charitable income.

Revenues of Alaska's public charities were just over \$3.1 billion in 2007 – a 20% increase from 2004.

Alaska public charities composition of revenues



Source: National Center for Charitable Statistics core files, Urban Institute, Profiles of Individual Charitable Contributions by State 2004 and 2008 and Nonprofit Sector in Brief and author estimate.

Comparing the Alaska findings from 2007 to 2010, public charities have improved the percentage of revenue they derive from sustainable sources:

- Contributed income went from 10% to 12%.
- Government fees, such as Medicaid, grew from 14% to 17%.
- Private fees (non-government fee-for-service) grew from 19% to 22%.

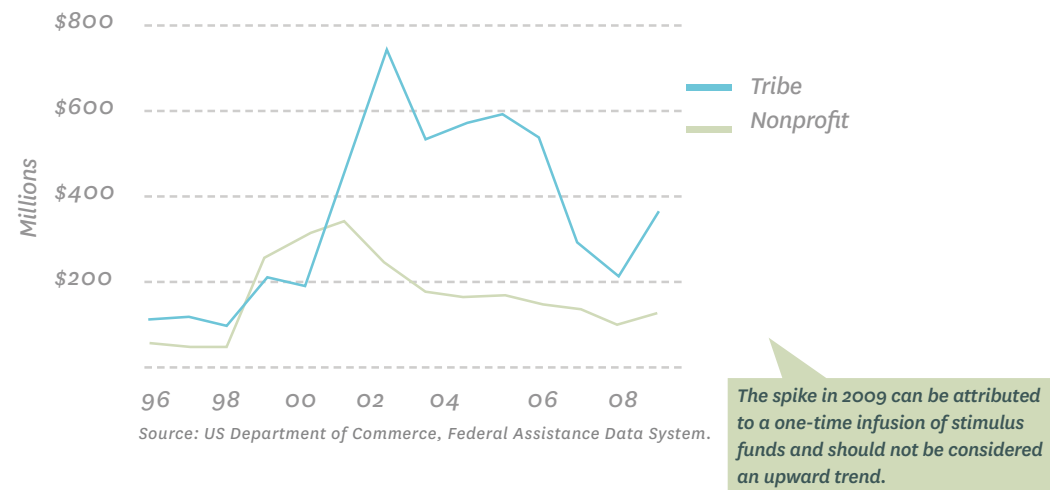
Philanthropic giving grew – but if adjusted for one-time capital campaigns, it grew less than 20% over three years.

Corporate and foundation giving continue to be disproportionately high compared to the national average.

Federal grants

Direct federal grants to the sector are large and significant. However, the trend is down in recent years - broken only by an increase attributable to federal stimulus funds in 2009. Federal involvement excludes payments for services such as Medicaid. The graph below describes the relationship between federal dollars going to both the nonprofit sector and Alaska tribal organizations.

Federal grants to nonprofits in Alaska



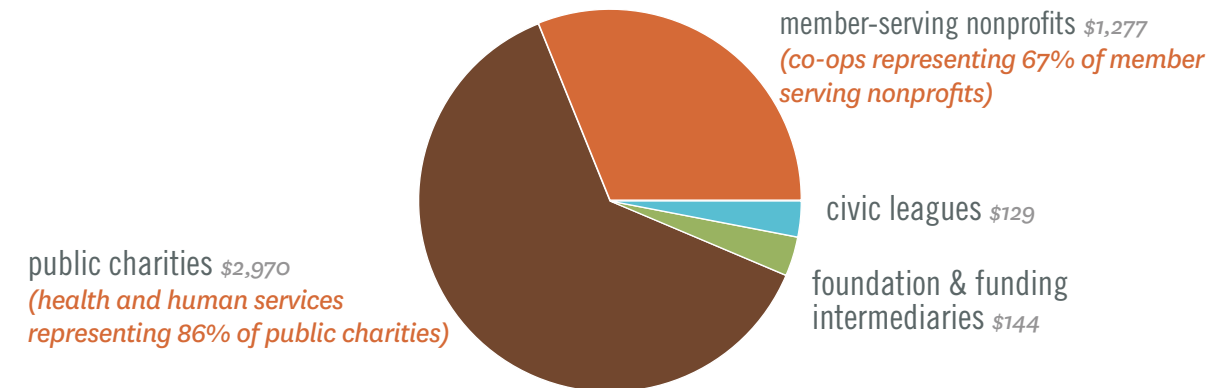
The number of federal dollars coming to Alaska nonprofits is significant, exceeding the amount per capita to other states. However, this trend has created a sector that lacks sufficient diversity in its streams of income. Emerging trends in the country's political make-up, with an emphasis on budget cutting, likely foretell reduced federal support in the future. As a result, nonprofits must broaden their base of support - cultivating more diverse and sustainable sources of revenue.

While Alaska nonprofits rely less on government grants - shifting from 53% of total revenue in 2003 to 43% in 2007 - this is still disproportionately out of line compared to the rest of the country.

Nonprofit expenditures

Overall, nonprofit expenditures were \$4.5 billion in 2007, compared to \$3.4 billion in 2004 - an increase of almost 25%. The \$4.5 billion figure is roughly in line with total revenues of \$4.8 billion.

Expenditures of nonprofits operating in Alaska in 2007 (in millions)



The close to \$3 billion spent by public charities in 2007 compares to \$2.4 billion in 2004 - almost a 20% increase in three years. Below is a breakdown of the increases by sub-sector:

- Health - 24%
- Social services - 20%
- Civic organizations - 25%
- Education - 30%
- Arts/culture - 87%

Total expenditures for all the state's 501c organizations grew to \$4.5 billion - a 25% increase - making the sector a significant contributor to the state's economy.

Foundation and funding intermediaries - 501c3

	funding intermediary	foundations	total
number of organizations	142	102	244
assets	\$766	\$800	\$1,566
contributions	\$82	\$37	\$119
total revenues	\$133	\$122	\$255
expenditures	\$102	\$42	\$144
staff	280	256	536

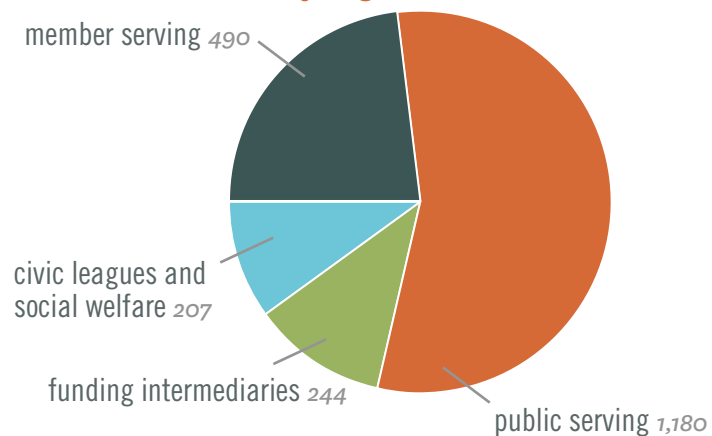
Source: National Center for Charitable Statistics Core data files.

In 2004, total expenditures by foundations and other funding intermediaries were nearly \$60 million. In 2007, that figure was \$144 million. As in 2004, Rasmuson Foundation is the largest in contributions at \$22 million, given primarily to Alaska nonprofits.

While this study did not determine whether all foundation and funding intermediary expenditures remained in Alaska, the mission for each of these organizations is to support Alaska organizations.

Nonprofit assets

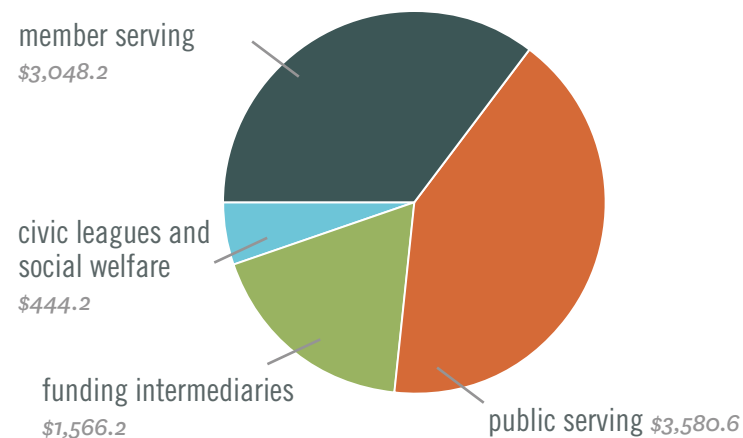
Number of organizations



Nonprofit assets increased from \$6.1 billion in 2004 to \$8.6 billion in 2007 - most held by 501c3 charitable nonprofits.

With almost 50 more funding intermediaries reporting in 2007 compared to 2004, the assets represented by these organizations grew substantially. Reporting funders include family foundations such as the Rasmuson Foundation, corporate foundations such as the CIRI Foundation and federated funders such as United Way. Total assets for funding intermediaries grew from \$535 million in 2004 to \$1,566 million in 2007. The largest - Rasmuson Foundation - reported assets in 2007 of more than \$600 million.

Assets at the end of year (in millions)



The data that emerges from this report, coupled with Foraker's work in the sector, help to surface three inter-related trends for Alaska's nonprofits - each of these present serious implications for the sector.

The first trend is the "funding crisis." The current funding mix for Alaska nonprofits is not sustainable. We must transform revenue streams - and fast! Alaska nonprofits must grow individual philanthropy and learn how to earn income. We have too little time to do each well, but we must try.

The second trend is the "crash of the herd." We have too many nonprofits for our "eco-system" or population. While the funding crisis could exacerbate this trend, the real culprit is a scarcity of the right people to serve on the boards and staffs of all 7,000 organizations. Even if we can adjust to the funding crisis, we can do little to avert the scarcity of people.

The third trend is a need to "restructure" how we do business. Because of the first two trends, as well as other societal and technological changes, nonprofit organizations will need to find more adaptable business models. Merger, consolidation, integration and cooperation are no longer nice thoughts. Enlightened leaders will seize this opportunity and begin discussions on what structure could work for them in the 21st Century. Others with a wait-and-see attitude will find they have few choices. Most will either go out of business or find themselves merged into another nonprofit, not of their choosing.

These trends comprise our best guess at the future. For organizations to survive them, they must start planning now for their long-term sustainability. We function in a new reality. No one knows what the future will hold, but those who are willing to take risks and prepare for the inevitable changes will find comfort in knowing that they did all they could to thrive.

At Foraker, we see three major trends facing the sector. If these trends aren't recognized, they will devastate some nonprofits and will most certainly touch all organizations.

- DENNIS G. MCMILLIAN
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