

# The Economic Impacts of Idaho's Nonprofit Organizations

## RESEARCH REPORT

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*The Idaho Nonprofit Center represents the interests of Idaho's 4,600 charitable  
nonprofit organizations. It serves as a broker of information, a convener of leaders  
and allies, and a bridge between the nonprofit, public and private sectors to create a  
stronger Idaho.*

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**The Economic Impacts of Idaho's Nonprofit Organizations**

## Rankings and Measures

- Idaho charitable nonprofit organizations employ an estimated 52,163 actual jobs which constitute 8.3% of all covered jobs in Idaho, 10.1% of private sector jobs, and pays \$2.6 billion in total aggregate compensation.
- Idaho's charitable nonprofits are ranked 6th place as an industry based on actual employment and ranks 7th place in a broader measure of jobs which include self-employment.
- Idaho charitable nonprofits directly employ more people than professional and technical services (30,379), construction (31,744), wholesale trade (28,154), transportation and warehousing (25,388), farm production (22,698), and finance and insurance (20,758).
- Overall, an approximate 52% of charitable nonprofit revenues are derived from federal or out-of-state sources, totaling \$2.3 billion.
- Contribution to gross state product: 3.7% - 6.1%, depending on the economic impacts measure.

## Other Key Findings

- In December 2013, Idaho had 7,035 registered nonprofit organizations producing total revenue of \$5.25 billion with \$10.95 billion in assets. Of these, public charities consisted of 4,603 organizations with \$4.39 billion in revenues and \$5.28 billion in assets.
- The \$4.39 billion revenues of Idaho public charities are their sources of operational spending and expenditures. Approximately 58% was spent on total compensation employing an estimated 52,163 direct workers.
- Approximately 20,710 jobs (40%) are employed in non-health related organizations (and excluding Battelle) with combined revenues of nearly \$1 billion dollars. The average total compensation package per job is \$29,116.
- Hospital and health-related organizations constitute 53% of all jobs (27,407), and Battelle Energy Alliance (BEA) employs 8% (4,046).
- The average total compensation per worker across all nonprofits was \$49,029, and ranged from \$81,986 per worker paid by Battelle to \$16,828 per worker in arts, culture, and humanities.
- Economic impacts: The expenditures derived from these federal and out-of-state revenues generate the following economic impacts including the multiplier effects:
  - \$4.10 billion in sales transactions
  - \$2.28 billion in gross state product (3.9% of GSP)
  - \$1.77 billion in total compensation (payroll)
  - 39,108 jobs
- According to Volunteering in America, 425,050 Idaho citizens volunteer annually in 2012, totaling 58.2 million hours of service.
- Volunteer hours are not included in GDP calculations but their implicit value can be estimated. The total market value of volunteer labor hours equals \$1.13 billion annually in wage and salary earnings. This is the equivalent of \$1.2 billion to gross state product (1.9% of the total) and \$2.05 billion in sales. Annualized, the total labor hours are the equivalent of 27,981 jobs.
- In total, Idaho's charitable nonprofits create \$129.0 million in taxes from economic activities arising from federal/out-of-state revenues. These include indirect business taxes (i.e. sales taxes, property taxes, and excise taxes), personal income taxes, and corporate income taxes (from the direct, indirect, and induced tax impacts). Using the broader measure of economic impacts, these tax revenues increase to \$195.3 million.

### Overview of Study

This is an update of an economic impact assessment of Idaho's charitable nonprofit organizations. The original study was commissioned by the Idaho Nonprofit Center and completed April 2012. The update was completed in September, 2014. The primary economic analysis is conducted using data from the 3,328 charitable nonprofit organizations which file 990 and 990EZ tax returns ("reporting nonprofits").

## Types of Nonprofit Organizations

The IRS recognizes 29 different classifications of nonprofit organizations. Public charities represent a substantial portion of the national nonprofit sector, and constitute 62% of Idaho's nonprofit organizations. Public charities receive their tax-exemption under subsection (3) of Section 501(c). The IRS defines these organizations as "charitable" because they serve broad public purposes, including educational, religious, scientific, and the literary activities, among others, as well as the relief of poverty and other public benefit actions. Public charities are categorized into two sub-categories: 1) Registered charities; and 2) Unregistered charities (revenues less than \$5,000). Registered charities are further classified into (a) those with revenues greater than \$25,000 annually and (b) smaller charities under \$25,000 in revenues

Private foundations are also charitable organizations exempt under Section 501(c)(3), but are not public charities. Most private foundations are created to distribute money to public charities or individuals. They must meet strict guidelines requiring distribution of a proportion of their assets each year.

Other nonprofit organizations include social welfare organizations (501(c)(4)), business leagues and trade associations (501(c)(6)), and social and recreational clubs (501(c)(7)). All nonprofit organizations, regardless of their classification, are exempt from federal income tax. However, only those classified as a 501(c)(3) permit donors to make tax-deductible contributions to the organization. Although this report will touch on the economic role of all nonprofit organizations in the economy, its focus is on public charities.

## National Role of Nonprofits in the U.S. Economy

Nonprofits play a significant role in the U.S. economy at all levels. Nationally there are 1.58 million nonprofits of which 61% are public charities, other nonprofits (33%), and private foundations (6%).

U.S.-based nonprofits employed 13.5 million people in 2009, of which an estimated 10.23 million were employed in public charities (Independent Sector). This constituted 10.5% of the 2009 covered U.S. workforce for all classified nonprofits and 7.9% based on public charities alone (QCWE). To put this in perspective, the total U.S. nonprofit employment was larger than the population of 46 states. Public charities alone employed more people than the population of 43 states and is equivalent to the 9.88 million population of Michigan (U.S. Census). Nonprofits paid an approximate \$668 billion in wages and benefits (2009/2010) which constituted 11.4% of the covered \$5.86 trillion U.S. total wages and benefits (Independent Sector/QCWE).

## Idaho's Nonprofit Organizations

In 2013 (including Battelle), Idaho had 7,035 registered nonprofit organizations producing total revenue of \$5.25 billion with \$10.95 billion in assets. Of these, public charities consisted of 4,603 organizations (3,183 organizations filing form 990 or 990EZ) producing \$4.39 billion in revenues with \$5.28 billion in assets. In terms of the relative size of the revenues of charitable organizations, the largest sub-sector was health-related (\$2.94 billion) which constitutes 66% of the public charity revenues and 62% of assets. In second place ranking (excluding Battelle) was education producing \$333 million in revenues, which constitutes 7.6% of total revenues and 17.1% of total assets (Figure 1).

The \$4.39 billion revenues produced by Idaho public charities are the source of operational spending and expenditures. Approximately 58% was spent on total compensation for an estimated 52,163 direct workers (totaling \$2.56 billion in total aggregate compensation). The average total compensation per worker was \$49,029, and ranged from \$81,986 per worker paid by BEA to \$16,828 per worker in arts, culture, and humanities. Approximately 53% of total jobs are in the health care sector and 19% are in human services (Figure 2).

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**Public Charities in Idaho, December 2013**

**Total Direct Public Charity 2013 Spending & Direct Jobs**

**Actual (Direct) Employment from Idaho's Charitable Organizations**

In terms of industry employment comparisons, the charitable nonprofits would rank 6th place in Idaho using the most commonly cited measure of employment (Quarterly Census of Employment and Earnings-QCWE). It would rank 7th place using a wider measure of employment called the Regional Economic Information System (REIS), Bureau of Economic Analysis. REIS includes an estimation of self-employed workers and includes other employment categories including production agriculture not included in covered employment measures (Figure 3).

Idaho charitable nonprofits directly employ more people than professional and technical services (30,379), construction (31,744), wholesale trade (28,154), transportation and warehousing (25,388), farm production (22,698), and finance and insurance (20,758) as measured by QCEW.

If ranked as a county economy (2013) in terms of employment charitable nonprofits would rank 2nd in Idaho behind Ada County (174,603 jobs), with Canyon County ranking third place (45,635 jobs).

### **Federal and Out-of-State Sources of Revenues**

A significant portion of total charitable nonprofit revenues originate from either federal or out-of-state sources. The majority of these revenues are generated by health care facilities and hospitals. Nonprofits account for about 80% of the acute care hospitals in the U.S. (Huffington). Hospitals receive from 35% to 55% of revenues from Medicare, depending on their facility and its mission. Idaho hospitals also receive approximately 16.5% of their revenues from Medicaid (Idaho Hospital Association) of which approximately 12% comes from federal sources. Medicare is a federal program that provides health care for seniors and Medicaid is a federal/state partnership that provides health care to the poor.

From a careful evaluation of various indicators, we estimate that approximately 55% of Idaho hospital revenues come from federal Medicare or Medicaid sources. This constitutes about 31% of total Idaho charitable nonprofit revenues alone. The remaining sectors (excluding BEA which is 100% federal/out-of-state funded) average a little over 20% in federal or out-of-state funds. Overall, we estimate that approximately 52% of charitable nonprofit revenues are from federal or out-of-state sources, totaling approximately \$2.3 billion annually. The vast majority of these revenues and expenditures are spent on Idaho programs and activities.

The funding and revenues sources for nonprofits arise from diverse and complex organizational systems and a small percentage is spent on out-of-state programs. Alternatively there are other sources of out-of-state funds for specific Idaho programs not included in reported nonprofit revenue totals. We assume these flows are offsetting.

### **Economic Impacts Based on Federal/Out-of-State Revenues (Narrow Measure of Impacts)**

An IMPLAN input/output economic model was created to estimate the economic impacts of the charitable nonprofits for two scenarios: 1) A narrow or conservative measure of economic impacts derived from federal or out-of-state revenues. 2) A broader measure that includes a wider range of other revenues/leakages and economic contributions.

An economic impact assessment identifies the magnitude of the causal factors that generate economic activity. The narrow analysis represents a conservative estimation of economic impacts that is export-focused. It is founded on economic base theory: Impacts are estimated from the portion of the nonprofit budgets arising from federal sources and out-of-state revenues. The expenditures derived from these revenues generates approximately \$4.1 billion in sales transactions, \$2.28 billion in gross state product (value-added), \$1.77 billion in total compensation, 39,108 jobs, and \$87.2 million in indirect business taxes (Figure 4). These include the direct, indirect, and induced effects (i.e. the multiplier effects).

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# REIS 2012 Employment Rankings

## QCWE 2013 Annual Employment Rankings

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### Economic Impacts of the Charitable Nonprofits of Idaho (From Federal and Out-of-State Funding) Including the Multiplier Effects

**Regional economic analyses have a specific language and terminology and are defined below:**

- **Direct effects (spending):** This represents the actual observed sales, income, and jobs from nonprofit operations.
- **Economic impacts:** Economic impacts measure the magnitude or importance of the expenditures of base (export) industries. Our economic model estimates multipliers for each industry. If you have a multiplier of 1.61, for example, every dollar of expenditures creates \$1.61 dollars of new spending in the community. The total multiplier has three components: direct effects, indirect effects, and induced effects.
- **Indirect effects:** These are the downstream economic effects on sales, payroll, jobs, and indirect taxes that results from direct spending in the regional economy. For example, a nonprofit purchases community goods and services which supports other area businesses. These firms, in turn, purchase even more goods and services as the effects ripple throughout the economy. They are part of the overall multiplier effects.
- **Indirect taxes:** All taxes generated from economic activity excluding personal and corporate income taxes. These consist of mostly sales taxes and property taxes. These are adjusted (i.e. reduced) for the tax exemption of nonprofit organizations. The economic activity including the downstream effects will generate considerable tax revenues despite the fact these organizations are tax-exempt.
- **Induced effects:** These are downstream economic effects of employee and consumer spending on the economy. They are part of the multiplier effects.
- **Jobs:** Total employment resulting from economic activity. The economic model reports these as full-time and part-time jobs.
- **Sales:** Total dollar transactions from an increase in direct expenditures including the multiplier effects (i.e. direct, indirect, and induced economic activity).
- **Total compensation:** Wage, salary, and other income payments including fringe benefits to individuals.
- **Value-added (value-output):** Value added is a measure of total net production and activity. This is a measure of gross domestic product at the local or regional level.

Based on the economic impacts of jobs arising from federal dollars and out-of-state revenues alone, the charitable nonprofits would rank 7th place by the QCWE covered industry rankings and 12th by the REIS employment rankings. The Idaho charitable nonprofits contribute 3.7% of Idaho's GDP as measured economic impacts. The economic impacts are also reported by two digit industrial classification including the backward linkages (Figure 5). They illustrate the effect of nonprofit expenditures and backward linkages on all of Idaho's economic sectors. Note the column totals in Figure 4 and Figure 5 would be the

same and represent different ways the economic pie is sliced if we exclude Battelle (which was estimated separately).

Figure 4 presents the economic impacts by charitable activity including the multiplier effects. Figure 5 illustrates the economic impacts by industry including the multiplier effects. The purpose of this comparison is to illustrate how the backward linkages of the charitable nonprofits reach nearly all of the industries in Idaho. The industry with the largest impacts is hospitals and health care with 50.0% of all jobs. Second place is social services (8.5%), followed by nonprofit education (7.0%).

### **Value of Idaho's Volunteers**

According to Volunteering in America, 425,050 Idaho citizens volunteer annually in 2012. Approximately 36.5% of adult residents volunteer, which ranks the state 3rd place nationwide. Idaho contributed 58.2 million hours of service annually averaging 48.6 hours per adult resident.

Volunteer hours are not included in GDP calculations but their implicit value to Idaho's economy can be estimated. The average wage in the Idaho nonprofit economic sector is about \$19.3/hour (total compensation). Applying that wage to the total volunteer labor hours equals \$1.13 billion annually in total compensation. This is the equivalent of \$1.2 billion to gross state product (1.91% of the total) and \$2.1 billion in sales. If we annualize the total labor hours they would be the equivalent of 27,981 jobs.

### **Broader Measures of Economic Impacts**

The economic impacts reported earlier are founded on economic base theory, derived solely from federal and private out-of-state revenues which may understate the actual contribution of charitable nonprofits to the Idaho economy for several reasons. First, many foundations and supporting charities are gatekeepers for various funding sources. These funds would leak directly out of the state in the absence of the public charities regardless of the origin of the funding. Secondly, a significant portion of nonprofit activities in Idaho are necessities such as acute care hospitals and related health care services. Patient revenues whether arising from private insurance or Medicare/Medicaid will follow the hospitals—out-of-state if necessary. Third, these numbers do not capture all nonprofit activities. Most notably are the nonprofit organizations/events that attract out-of-state visitors such as concerts, museums, workshops, and other events. Fourth, these estimates do not include the value of volunteer or in-kind contributions to charitable organizations. Finally, the reported revenues and expenditures do not capture all of the flow of funds to nonprofits in general and charitable nonprofits in particular. Based on these factors, a broader measure of the economic impacts was estimated: \$6.7 billion in sales; \$38 billion in gross state product (6.1% of Idaho GSP); \$2.92 billion in total compensation; 70,355 jobs (11.4% of covered employment); and \$133.0 million in indirect business taxes (Figure 6).

### **Tax Revenues Generated by Idaho's Charitable Nonprofits**

Idaho's charitable nonprofits generate considerable tax revenues even though most nonprofit activities are exempt from income tax and nonprofits generally do not pay property taxes. The economic activities of these organizations create tax revenues in several important ways: 1) Some activities of charitable nonprofits are not tax exempt, 2) Employees of charitable nonprofits pay income taxes, property taxes, sales taxes, and excise taxes, 3) Contracting and outsourcing firms from charitable nonprofits pay taxes, 4) All of the economic activities from the backward linkages created by the charitable nonprofits in the economy contribute to taxes (Figure 7).

The magnitude of these tax revenues is substantial. The economic activities arising from federal/out-of-state revenues created \$84.1 million in indirect business taxes in 2013. These are comprised of sales taxes (\$36.0 million), property taxes (\$26.9 million), excise taxes (\$15.8 million), and other taxes (5.4 million). They include the direct, indirect, and induced tax impacts.

In addition, the charitable nonprofits created \$40.4 million in Idaho personal income payments and \$4.5 million in corporate income taxes. In total, \$129.0 million in tax revenues were created.

The magnitude of these tax revenues increase if we include the broader measure of economic impacts.

They result in \$133.1 million of indirect business taxes which include sales taxes (\$59.9 million), property taxes (\$42.3 million), excise taxes (\$20.30 million), and other taxes (10.6 million). They include the direct, indirect, and induced tax impacts. In addition, the charitable nonprofits create \$56.4 million in Idaho personal income payments and \$5.84 million in corporate income taxes. In total, \$195.3 million in tax revenues are created.

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## **Economic Impacts of Idaho Charitable Nonprofit Organizations by Industry**

**Including Backward Linkages Arising from Federal and Out-of-Region Revenues (Excluding Battelle Energy Alliance)**

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## **Economic Impacts of the Charitable Nonprofits of Idaho (Wider Measure of Economic Impacts)**

## FIGURE

### Total Tax Contributions from Idaho's Charitable Nonprofits

#### Sources:

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