

Give and you will receive:

*An analysis of nonprofit revenue trends and
charitable giving in Greater Milwaukee*



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Executive Summary

The nonprofit sector is a key provider of taxpayer-funded and independent programs, as well as a major source of employment. Consequently, the health and workings of the sector are policy issues that warrant attention from both government and civic leaders.

This report examines trends in revenues and contributions for public charities in Greater Milwaukee. Its intent is to inform policymakers and citizens about the health of the nonprofit sector, and to identify possible threats or opportunities regarding its future well-being. Trends are identified for the entire nonprofit sector and also nine subsectors (or “categories”). Further, we analyze the sensitivity of contributions to certain economic and fiscal policy factors. From this analysis, policy considerations emerge related to the sector’s diversity and the sustainability of historical trends.

Key Findings

1. Between 1989 and 2011, aggregate revenue of public charities in the Milwaukee MSA grew at an annual rate of 4% while contributions grew even faster at 4.5% per year. In comparison, Wisconsin’s GDP rose by 2.3% annually. The relatively rapid increase in the size of the nonprofit sector is sustainable, but our analysis suggests that growth will eventually slow down. Moreover, based on year-over-year changes, growth rates in revenue and contributions are nearly three times as volatile as GDP.
2. Although the nonprofit sector is growing as a whole, average revenue per organization fell by 17% from 1989 to 2011. This was caused by a robust expansion in the number of public charities, which increases competition for funding. While more organizations would imply greater diversity, the fact that organizations are decreasing in size may threaten larger programs and organizational capacity.
3. 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. Evidence also suggests that recessions induce greater generosity as the perceived need for contributions grows. This can dampen, but not fully offset, the negative effect of a contracting economy.
4. 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.
5. While there are clear trends for the entire nonprofit sector, patterns across the nine individual categories are not fully homogenous. For example, contrary to broader trends, per-organization revenues in the Health and Healthcare category have actually increased since 1989. The unique traits of each category are discussed in the “individual profiles” prepared as part of this report.

“Nonprofit organizations play a central role in supporting our communities and contributing to the quality of life in Greater Milwaukee.”

“...our research also uncovers questions about diminishing nonprofit capacity and the long-run viability of larger programs...”

Overall, Greater Milwaukee has a growing, robust nonprofit sector supported by a donor base willing to fund its endeavors. Nevertheless, our research also uncovers questions about diminishing nonprofit capacity and the long-run viability of larger programs as a result of shrinking per-organization revenue. It is possible that programs deemed too costly or too large to be administered by increasingly smaller organizations will be scaled back or eliminated altogether. What would follow is a reduction both in the infrastructure needed for critical programs and in organizations’ expertise in those program areas.

While this analysis identifies these trends, it was not within its scope to explore the severity of their impact and the willingness and ability of other players to address them, including local government, institutional philanthropy, individual donors, and the public charities themselves.

Public Charities in Greater Milwaukee (2011)	
Number of Organizations	2,333
Total Revenue	
Overall	\$3,697,121,760
Per Organization	\$1,576,992
Annual Growth in Revenue (1989-2011)	
Overall	+4%
Per Organization	-1%
Total Contributions	
Overall	\$1,401,651,108
Per Organization	\$600,793
Annual Growth in Contributions (1989-2011)	
Overall	+5%
Per Organization	-0.3%
<i>Note: Figures reflect an adjusted sample, which excludes hospitals and universities, among others.</i>	

Introduction

Nonprofit organizations play a central role in supporting our communities and contributing to the quality of life in Greater Milwaukee. However, nonprofit activity often receives little attention because it does not fit cleanly into classification as part of the public or private sector. What we do hear of the nonprofit sector is a story of tightening budgets that are being further challenged by a growing demand for services. Yet, while this is empirically true, it is only one part of a larger narrative about the state of the metropolitan area's nonprofit sector as a whole.

In this report, we examine changes in Greater Milwaukee's nonprofit landscape between 1989 and 2011 (the last year for which complete data sets are available). Specifically, we pay close attention to revenue trends within economic cycles at both aggregate and organizational levels across nine categories of public charities. We conduct a statistical analysis of charitable giving to gauge the sensitivity of contributions to the prevailing economic climate. Our research identifies trends that speak to the strong willingness of the area's donor base to fund the work of nonprofits, but we also uncover other trends that raise serious questions about the consequences of paradigm shifts in the sector and the services it provides.¹

Policy Connections

While knowledge of the financial situation faced by local charities certainly is valuable in its own right, it also is important because of its strong implications for public policy. Nonprofit organizations often act as local government service contractors, administering programs that may not be efficiently maintained by either the public or private sector for financial or political reasons.² The health and stability of nonprofit organizations determine the extent to which governments are able to rely on them, as these organizations' size and expertise are key determinants of their ability to be successful in their role as service providers. In the event that financial hardship precludes many nonprofit organizations from providing government-funded services, policymakers must grapple with the question of who will fill the void. Alternatively, if public sector expenditures for certain areas, such as mental health, are reduced, do local nonprofits have the resources to pick up at least some of the slack?

The nonprofit sector also is a major employer in Greater Milwaukee and the State of Wisconsin. In 2012, the Donors Forum of Wisconsin reported that the State's nonprofit sector employed 273,000 people, or 11% of the State's workforce, and had annual revenues of \$41 billion.³ Collectively, these organizations are not a tertiary component of the regional economy. Instead, occurrences within the nonprofit realm can have a wide and significant impact across all industries and sectors.

Whether it is through running museums, mentor programs, or even festivals, nonprofit organizations also contribute to the overall quality of life in the community. While this may eventually translate into an economic benefit in terms of increased earning potential or property values, it is also something to be valued on its own. A child is better off for having seen and interacted with exhibits at the Milwaukee

¹ In this report, the term "nonprofit" or "nonprofit organization" refers to any 501(c)(3) public charity.

² Feiock, Richard and Hee-Soun Jang. (2009). "Nonprofits as Local Government Service Contractors." *Public Administration Review*, Vol. 69(4), pp. 668-680.

³ *Wisconsin Gives*. (2012). Milwaukee, WI: Donors Forum of Wisconsin. The figures reported by the Donors Forum of Wisconsin include hospitals and universities, which we later filter out of our analysis.



Art Museum, even if he or she later grows up to be an economist. Similarly, groups that provide social activities and recreation to residents of assisted living centers may not be conferring an economic benefit on the region, but their actions are nonetheless beneficial to the community. In this way, nonprofits and local governments have overlapping goals of making life more enjoyable and fulfilling within their geographic areas.

Finally, nonprofits can be a breeding ground of innovation for social programs. Their ability to experiment with different types of programs, delivery methods, and outreach activities can help inform policy discussions about the best way to support community needs.⁴ Private contributions generally support innovative efforts and capacity building in the nonprofit sector, as these organizations typically have little flexibility in how they use government funding. These activities not only increase the ability of nonprofit organizations to provide government services, but also may help to uncover latent needs or gaps in services.

Purpose

This report does not paint the full picture of the financial health of Greater Milwaukee's nonprofit sector. It is not possible for us to address here all of the looming challenges faced by local organizations, either because the data for such an analysis do not yet exist or because it requires a subjective assessment, which is beyond the scope of this report. Instead, our goal is to present financial trends and their logical implications, thereby launching a broader discussion of the support needed to maintain the health of local public charities now and in the future. While certain topics may require more research in the future, we hope that this report can frame the discussion and begin to identify relevant policy options and objectives.

⁴ Reckhow, Sarah and Margaret Weir. (2011). "Building a Stronger Regional Safety Net: Philanthropy's Role." *Brookings Institute Metropolitan Policy Program*.



Methodology

Our analysis concerns itself with historical trends in the size, composition, and revenue streams of the 501(c)(3) public charities registered in the Milwaukee-Waukesha-West Allis metropolitan statistical area (MSA).⁵ Public charities are what most people associate with the term “nonprofit organization.” These organizations must be operated for the public good and are prohibited from engaging in political campaign activity.

We present figures for the nonprofit sector as a whole and also for the specific categories of nonprofits listed in the table to the right. Each nonprofit organization is sorted into a particular category by the IRS based on standards set by the National Center for Charitable Statistics (NCCS) and outlined in the National Taxonomy for Exempt Entities (NTEE).⁶ The NTEE system identifies 26 major groups, designated by a letter, and 10 broad categories, which consist of one or more major groups. With only limited changes, we follow the NTEE system’s broad categories in our analysis.

Category Name	NTEE Major Group(s)
Arts, Culture, and Humanities	A
Education	B
Environment and Animals	C, D
Community Improvement	S
Health and Healthcare	E, F, G, H
Human Services	I, J, K, L, M, N, P
Public and Societal Benefit	R, T, U, V, W
Religion-Related	X
Youth Development	O

A sample of eight organizations is provided in each category’s individual profile.

NCCS identifies five sources of nonprofit revenue: contributions, gifts, and grants; net special events income; investment income; program services and contracts; dues; and net sales and other income. Our analysis touches upon all revenue sources, but we pay special attention to “contributions, gifts, and grants,” which we refer to simply as “contributions” throughout this report, and which we attribute largely to gifts from individual households. While this revenue source technically includes grant income, we find that it does not influence our results for a few reasons. First, grant revenue is generally recorded as revenue from “program services and contracts” on income filings, as grants are frequently awarded for a specific purpose that constitutes a contractual obligation for the recipient. National estimates vary, but one study found that in 2001, 84% of reported contributions came from individuals, and *Giving USA* reports that the figure for 2012 was 72%.⁷ In Wisconsin, the Donors Forum of Wisconsin finds that more than 80% of charitable contributions come from individual households.⁸

⁵ Every 501(c)(3) organization belongs to one of two groups: private foundations or public charities. The MSA is made up of Milwaukee, Ozaukee, Washington, and Waukesha Counties.

⁶ For more information on the NTEE system, visit <http://nccs.urban.org/classification/NTEE.cfm>.

⁷ Havens, John, Mary O’Herlihy, and Paul Schervish. (2006). “Charitable Giving: How Much, by Whom, to What, and How?” Published in *The Non-Profit Sector: A Research Handbook*. Yale University Press: New Haven, CT.

Giving USA: The Annual Report on Philanthropy. (2013). Indiana, IN: A publication of Giving USA Foundation, researched and written by the Indiana University Lilly Family School of Philanthropy.

⁸ *Wisconsin State of Philanthropy Report*. (2009). Milwaukee, WI: Donors Forum of Wisconsin.

We examine contributions in greater detail than the other revenue sources for two primary reasons. First is the importance of contributions to the overall nonprofit business model. For organizations whose revenue is comprised mostly of contributions, they are the key driver of operations. However, even for organizations that rely mostly on selling their products and services (e.g. health clinics), contributions still are a critical revenue stream. In many cases, such organizations are able to provide services below their true cost or market value only because contributions are able to make up the difference. Second, because contributions are largely unrestricted funds, they can be dedicated to experimental or innovative endeavors. This type of activity can help uncover ways for nonprofits to increase their efficiency and effectiveness.

We pare down the sample slightly from all public charities in the MSA to account for outliers and other technical considerations. The area's nonprofits show a great deal of heterogeneity both within and across categories. For example, Aurora Health Care reported revenue in 2011 of \$3.5 billion, of which \$7.5 million (0.2%) came from charitable contributions. Conversely, 97% of the reported \$73,661 in revenue for Guitars for Vets came in the form of contributions. To eliminate the bias caused by a few exceptionally large organizations, namely healthcare providers and universities, and to focus on those organizations that are more likely to rely on charitable contributions as a fundamental aspect of their business model, we eliminate the following NTEE subcategories within the relevant major groups to create an adjusted MSA sample: Undergraduate Colleges (NTEE Code: B42), Universities (B43), Graduate and Professional Schools (B50), Hospitals (E20), Community Health Systems (E21), General Hospitals (E22), Specialty Hospitals (E24), Group Health Practices (E31), Supportive Housing for Older Adults (P75), Centers to Support the Independence of Specific Populations (P80), and Religion-Related NEC (X99).⁹

The effect of adjusting the sample to exclude the subcategories above is small in terms of the number of organizations removed, but large in terms of revenue. In 2011, adjusting the sample excluded only 4.3% of all public charities in the Milwaukee MSA, but reduced aggregate revenue by 81%. The excluded organizations account for four-fifths of all nonprofit revenue in Greater Milwaukee but receive less than a quarter of all charitable contributions.

Except where noted, reported figures reflect only the adjusted sample, and all dollar amounts are adjusted for inflation and reported in terms of 2011 dollars.

⁹ Information regarding the specific reason for the removal of each subcategory is available upon request. One specific organization, Ministry Health Care (X20), is excluded for the years 2009 to 2011, as it is a healthcare provider, but appeared in data sets only for those years.

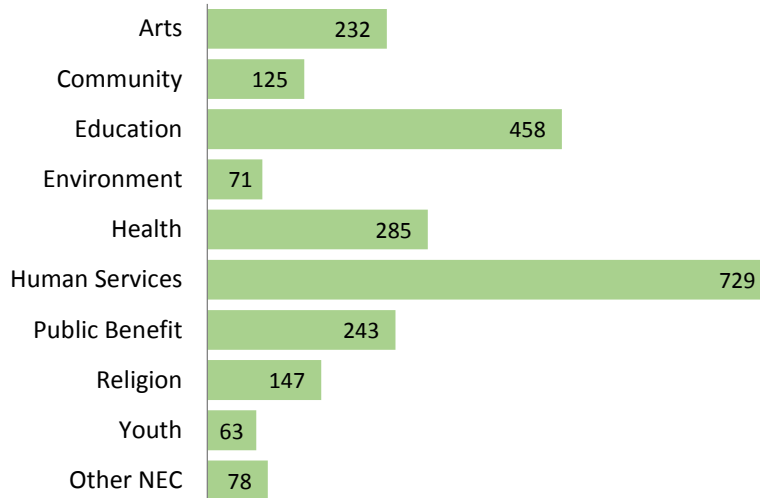


An Overview of Greater Milwaukee's Nonprofit Landscape

For the full, unadjusted sample, the National Center for Charitable Statistics reports that in 2011, the Milwaukee metro area housed 2,431 registered public charities. That figure amounts to 31% of all of Wisconsin's public charities and represents one organization per 646 residents of the Milwaukee MSA. These 2,431 organizations reported receiving charitable contributions of \$1.85 billion.

As seen in **Figure 1**, nearly a third of Greater Milwaukee's nonprofit organizations fall into the Human Services category, with 729 organizations in the adjusted sample. The Youth Development and Environment and Animals categories are smallest, with 71 and 63 organizations, respectively. "Other NEC" (Not Elsewhere Classified) consists of all organizations that are not included in the categories discussed in this report. With only 78 organizations outside the scope of this report, our analysis encompasses 97% of the area's public charities.

Figure 1: Nonprofit Organizations in the Milwaukee MSA by Category (2011)



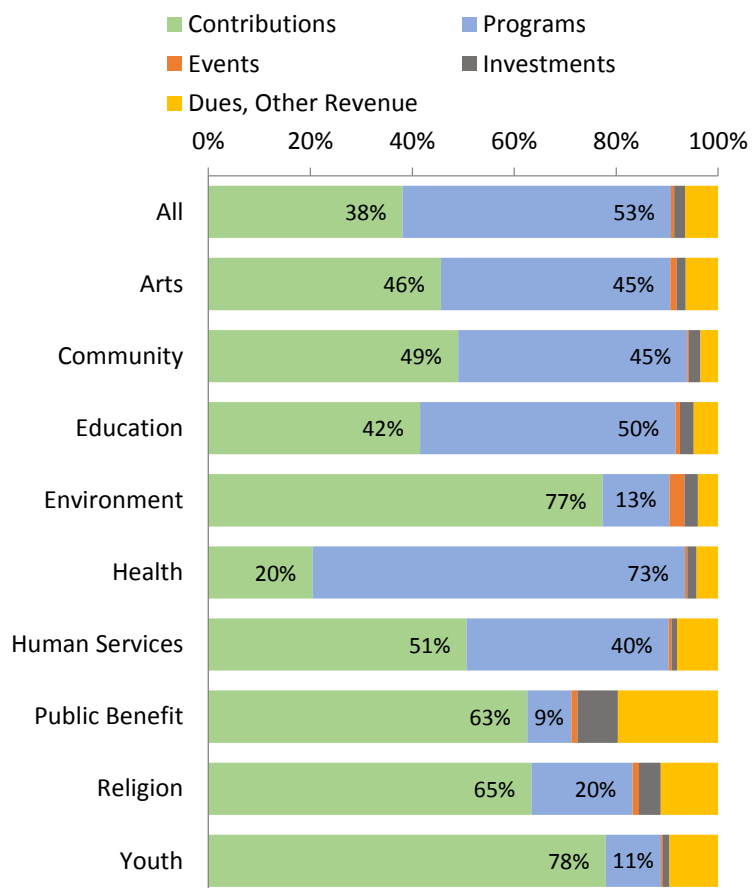
Source: NCCS

The average revenue for a public charity in 2011 was \$1.58 million, with contributions making up \$601,000 (38%) of revenue. Income from program services accounted for an additional 53% of revenue. However, the mix of funds from contributions, program revenue, and other sources varied considerably across categories, as shown in **Figure 2** below. Organizations in the Environment and Animals and Youth Development categories received the largest portion of their revenue from contributions, at 77% and 78% respectively. Health organizations, in contrast, received only 20% of their revenue from contributions and 73% of their revenue from charging for the programs and services they provide.

The variation in revenue shares among nonprofit organizations is largely attributable to differences between the categories and the organizations' activities. For example, organizations working to improve the environment provide a quintessential public good. It is virtually impossible to offer a program that improves the environment only for a particular payer. Accordingly, contributions, rather than income from the sale of a good or service, make up the lion's share of those organizations' revenue. Conversely, nonprofit health clinics offer programs where the recipients are discrete and identifiable. As a result, the majority of their revenue is generated from the sale of goods and services, which is considered program

revenue. Still, contributions help supplement these programs, allowing nonprofit health organizations to provide services at a lower cost than for-profit providers.

Figure 2: Revenue Shares by Category (2011)

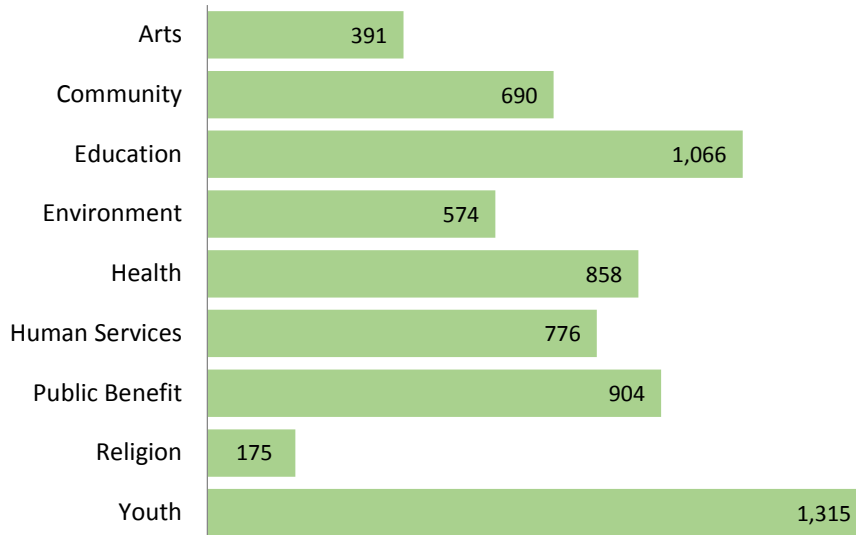


*Note: Data are compiled from IRS forms 990 filed by required organizations.
Source: NCCS*

Although health organizations receive the lowest share of their revenue from contributions, they receive the fourth-largest amount of contributions per organization. The average nonprofit in this category received \$858,000 in contributions in 2011. Non-church religious organizations receive the lowest average amount of contributions per organization.¹⁰ This is not to say that health organizations are overfunded relative to religious organizations, but rather that health organizations are simply larger than religious organizations. **Figure 3** below shows the average amount of contributions received per organization in each category.

¹⁰ The Religion category does not include churches, which are exempt from reporting these data to the IRS.

Figure 3: Contributions per Nonprofit Organization (2011)
in thousands of dollars

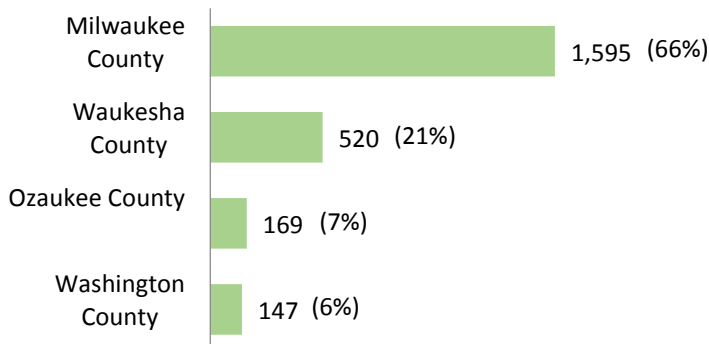


Source: NCCS

The geographic distribution of nonprofit organizations, which is shown in **Figure 4**, aligns roughly with population distribution. In 2011, 66% of the MSA's nonprofit organizations were located in Milwaukee County, where 61% of the area's population resides. The location of a nonprofit does not necessarily imply that the organization's activities are limited to that particular county, nor does it tell us where its contributions originated. Many factors influence location, such as the purpose of the organization, the target population, and access to donors. For example, there is presumably a greater need for food pantries in Milwaukee County than in Ozaukee County.

The data do not suggest that any one county has a more "nonprofit-friendly" environment than the others. Since 1989, the geographic distribution of nonprofits has generally reflected the population distribution of the MSA. If there were some factor that rendered nonprofits in a particular county more successful than those in other counties, we would expect to see a growing concentration of organizations in that county. However, that has not been the case.

Figure 4: Location of Nonprofit Organizations (2011)



Source: NCCS



Historical Trends

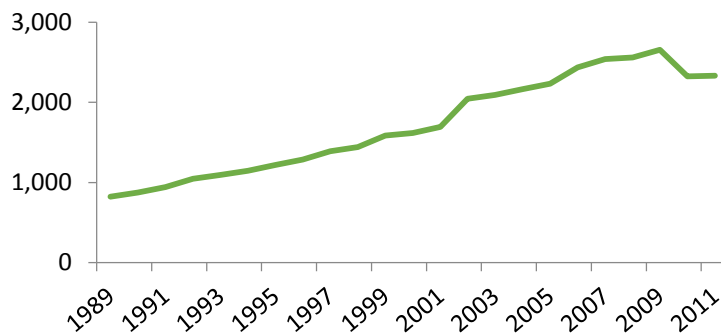
While it is useful to examine the nonprofit sector at a given point in time, there also is value in investigating trends over time. Data from the National Center for Charitable Statistics allows us to examine changes in the nonprofit sector from 1989 to 2011. Investigation of historical trends in the nonprofit sector reveals insight regarding diversity, sustainability, and sensitivity.

In this section, we examine historical trends for the sector as a whole and then discuss key themes and implications. Historical trends in each category are detailed in respective individual profiles that follow the conclusion of this report.

Sector-Wide Development Trends

The MSA's nonprofit sector has experienced growth in terms of the number of organizations, total revenue, and total contributions. From 1989 to 2011, the number of public charities increased by 183%, growing from 824 to 2,333 organizations, as shown in **Figure 5**. This is a change from one organization per 1,603 MSA residents to one organization per 646 residents, indicating that the number of organizations has grown considerably faster than the population.

Figure 5: Number of Nonprofit Organizations

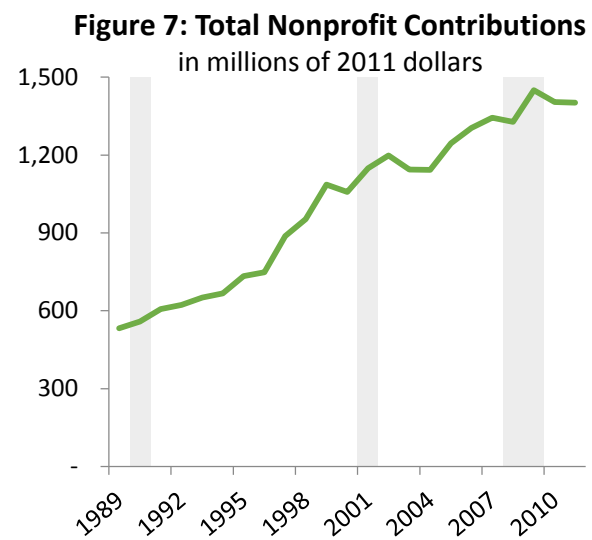
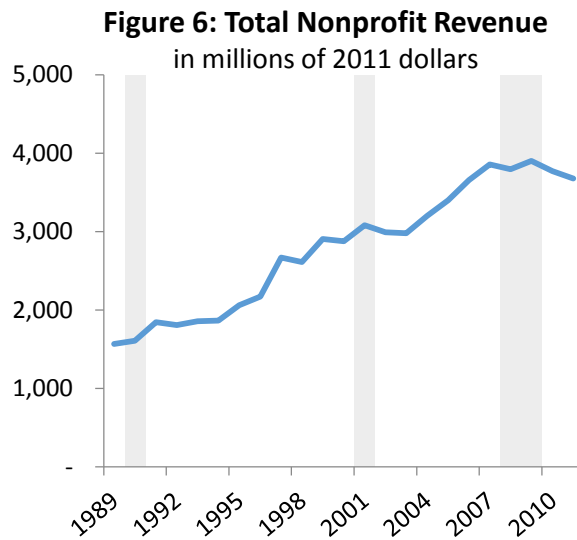


Source: NCCS

We can only speculate about what has caused the increase in the number of organizations. Economic opportunity, issue awareness, ease of formation, or simply greater need are all valid reasons to explain the growth we have seen over the last 25 years.

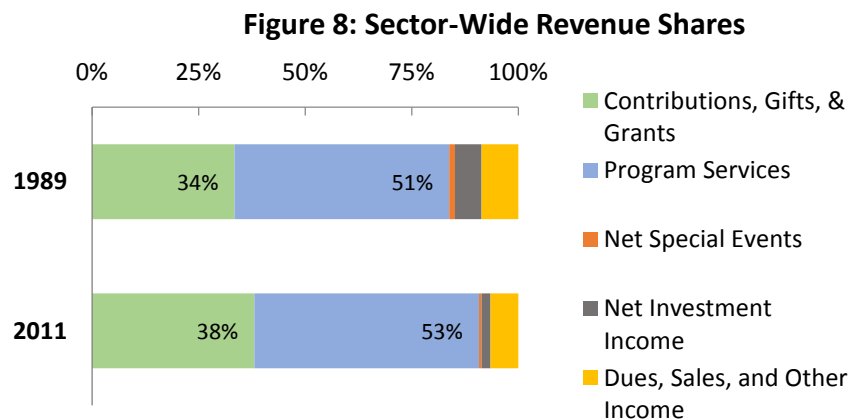
In the same time frame, Greater Milwaukee's public charities saw an increase in revenue of 134%.¹¹ NCCS figures indicate that nonprofit revenue in the MSA totaled \$3.68 billion in 2011. Similarly, contributions have increased by 193% to \$1.86 billion over the same period. As shown in **Figure 6** and **Figure 7**, there also has been some degree of cyclical behavior. For example, there are marked declines in revenue corresponding to the timing of the dot-com bust (2001) and the most recent recession (2008-2009).

¹¹ Reflects inflation-adjusted revenue based on GDP deflators published by the Bureau of Economic Analysis.



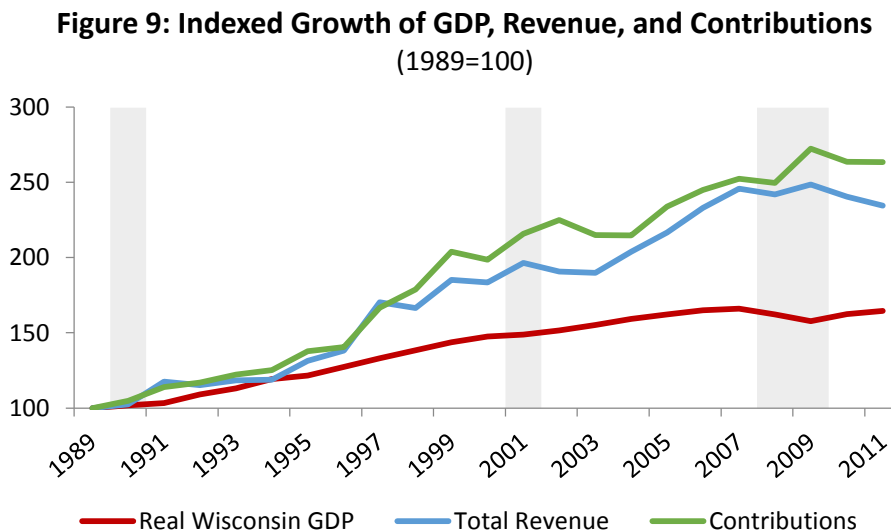
*Note: Figures are inflation-adjusted 2011 dollars. Shading indicates recession.
Source: National Bureau of Economic Research, NCCS, authors' calculations*

Figure 6 and **Figure 7** also show that contributions have grown slightly faster than nonprofit revenue. However, the corresponding increase in contributions as a share of revenue has been slight, as seen in **Figure 8**. As a whole, revenue shares have not deviated very much from their 1989 levels for the sector, though revenue shares in certain categories have been more volatile.



Source: NCCS

Relative to Wisconsin's GDP, the growth in Greater Milwaukee's nonprofit sector has been impressive. Over the 1989 to 2011 timeframe, MSA nonprofit revenue has grown at a rate of 4% annually, which is nearly double the 2.3% annual growth in GDP. Contributions have grown even faster at an annualized rate of 4.5%. **Figure 9** tracks the growth of GDP, revenue, and contributions since 1989.



Note: Shading indicates recessions.

Source: National Bureau of Economic Research, NCCS, US Census Bureau

Figure 9 shows that contributions and revenue behave more erratically than GDP. In fact, statistical analysis reveals that revenue and contributions are approximately three times as volatile as GDP.¹² So, while growth in the nonprofit sector typically outpaces the overall economy, it remains more difficult to determine if the sector will grow or contract in a particular year and also to predict the magnitude of that change. Considering that many nonprofit organizations administer critical social programs on behalf of government agencies and also independently provide support to local communities, the relatively high level of volatility is problematic. Unanticipated drops in contributions and revenue have the potential to interrupt service delivery and negatively impact vulnerable populations and quality of life.

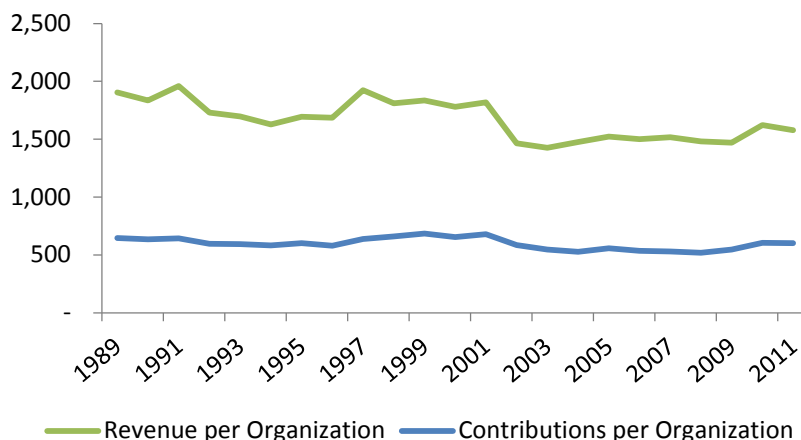
Revenue and Contributions at the Organization Level

The growing number of organizations and increasing contributions and revenues indicate that, as a whole, the nonprofit sector is growing. Simply put, there are more organizations and there is more money available to fund those organizations. However, careful observation shows that the number of organizations has grown at a faster rate than both revenue and contributions. Among other implications, this indicates that revenue and contributions per organization have fallen over the period

¹² The standard deviations of percentage changes are 0.021 for Wisconsin GDP, 0.067 for revenue, and 0.057 for contributions. (Standard deviation is a statistical measure for how much a given indicator may change within a certain timeframe. A lower standard deviation implies that the indicator tends to move slowly and predictably. A higher standard deviation implies that the indicator is more erratic and difficult to predict.)

of our analysis. Indeed, this is depicted visually in **Figure 10**, which shows a noticeable decline in nonprofit revenue per organization and a slight decline in contributions per organization.

Figure 10: Nonprofit Revenue per Organization
in thousands of 2011 dollars



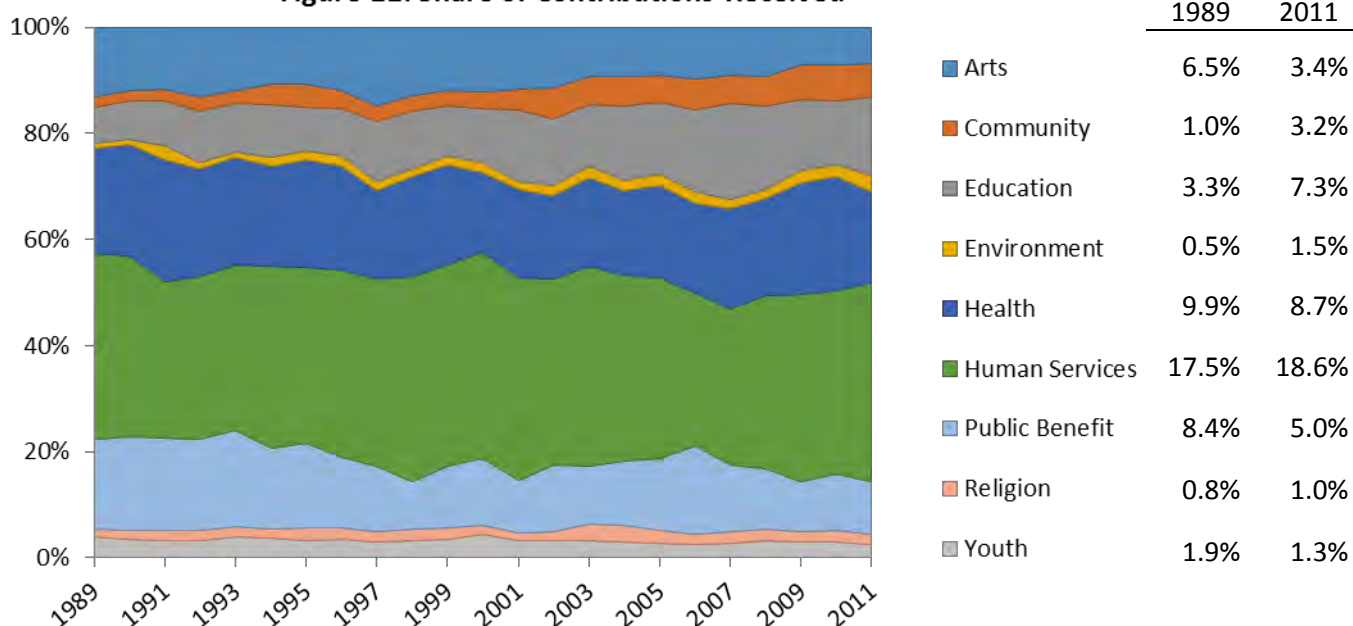
Source: NCCS

The decline in revenue and contributions that many nonprofits have reported is indeed a very real phenomenon. By the numbers, inflation-adjusted revenue per organization fell by \$327,000, or 17%, between 1989 and 2011. Contributions per organization, however, declined by a more modest \$45,269, or 7%, over the same time period. As we have seen, this trend is not caused by a general decline in the nonprofit sector. Instead, it is the result of the number of nonprofit organizations growing faster than aggregate revenue. With the available data, it is difficult to say whether the decline in average revenue is caused by established organizations reducing the size of their operations or simply by the formation of new nonprofits, which may start and stay smaller.

Destination of Contributions

Although the nonprofit sector is growing as a whole while the average nonprofit is shrinking, the destination of contributions appears to be quite stable, as depicted in **Figure 11**. The width of the bands indicates the percentage of contributions received by public charities in that category relative to all other contributions. The accompanying table indicates the values for 1989 and 2011 for each category.

Figure 11: Share of Contributions Received



Source: NCCS

The Arts, Health, Public Benefit, and Youth Development categories each saw reductions in their share of contributions. The Arts category experienced the most severe decline, with its share of contributions dropping by nearly 50%. Conversely, the Community Improvement, Education, Environment, Human Services, and Religion categories saw their shares of contributions increase. The share received by organizations in the Community Improvement and Environment categories tripled over the time period and Education saw gains of more than 100%. As a whole, however, the changes are not especially drastic or surprising. For example, as awareness of environmental issues has risen, the share of contributions received also has increased.

The changes in proportional shares of contributions shown in **Figure 11** should not necessarily be interpreted as a scenario in which one category is benefiting at the expense of another. While it certainly is true that individuals who regularly give a certain amount of money may change the distribution of their gifts, it also is true that some categories receive contributions from individuals who either do not donate to other categories or who maintained their contributions to other categories while increasing their giving to other areas. Because the nonprofit sector has grown (see **Figure 7** and **Figure 9**), a declining share of overall contributions does not imply a reduction in the level of contributions.

Additionally, **Figure 11** shows that there are not clear “fads” in giving (i.e. fashionable periods of transient giving to a certain category, resulting in a bubble in that category’s share of contributions). Instead, trends in the distribution of contributions are modest and slow-moving.

Sensitivity Analysis

A primary objective in the undertaking of this report was to understand how charitable giving responds to changes in the economic climate. To gauge such sensitivity, we rely on statistical analysis and build an empirical model of charitable contributions.

A discussion of the technical aspects and theoretical underpinnings of the model is available in the appendix. In broad terms, the model breaks down existing data to see how the annual amount of contributions received by nonprofit organizations in the Milwaukee MSA varies in response to changes in certain economic and fiscal policy indicators or variables. The end result is an equation that can predict the amount of charitable contributions when provided with a set of these indicators. Moreover, the equation allows us to quantify the extent to which charitable contributions would be affected by a hypothetical change in any one indicator.

We examine how the amount of charitable contributions received by Greater Milwaukee's nonprofit organizations is impacted by each of the following variables on an individual basis:

1. Wisconsin's real (inflation-adjusted) gross domestic product (GDP)
2. The value of the S&P 500, adjusted for inflation
3. Federal and state income tax rates
4. A property tax index for the Milwaukee MSA
5. An indicator of whether or not the economy is experiencing a recession
6. Charitable contributions received in the previous year

The model uses an estimate of contributions received by all public charities, including hospitals and universities. While we excluded those organizations previously to help us uncover revenue trends obscured by large organizations, there is no reason to suggest that contributions to these organizations unduly influence the results of our sensitivity analysis.

We measure the impact of changes in GDP because one would reasonably expect that as GDP, or income, rises, charitable contributions would increase. It also is possible that changes in wealth and one's expected future income affect charitable giving. For example, if stock prices increase, the value of an individual's 401(k) may increase. Although no additional cash income is received that year as a result, he or she can expect to receive more income in retirement. Consequently, the individual may be willing to increase his or her contributions to charitable organizations. We capture this effect by including the S&P 500 stock index as a variable in our model.

Additionally, we expect contributions to be affected by the prevailing tax rates. Higher tax rates decrease the amount of income one is able to contribute, even if those contributions are fully tax-deductible. We assume that donors are indifferent to income taxes levied by state or federal authorities.

Property taxes are included as a measurement factor separate from income taxes for a few reasons. First, there is value in examining a local policy consideration with greater clarity than would be possible if it were combined with income taxes. Second, considering that property taxes are levied, paid, and utilized differently than income taxes, it is possible that donors do not respond identically to changes in property taxes as they do to changes in income taxes. Property tax revenue frequently goes to support schools, parks, and youth programs in the local community. Income taxes may also support those activities, but a large share goes to national programs that may not directly benefit the individual



taxpayer or local community. Since residents can more easily see the “return” on their property tax dollars, they may not change their behavior in the same way that they would for income taxes.

We include an indicator for recessions because they alter individuals’ confidence in the economy and their behavior. On the one hand, donors may reactively rein in their contributions during a recession as they brace for a potential decrease in income. On the other hand, recessions generally increase the demand for nonprofit services and the need for contributions. Seeing this, donors may actually be induced to maintain their giving or even give more, provided that they feel relatively secure in their own income. The notion that recessions may be associated with greater generosity is not a fundamentally new concept. Some previous empirical studies have found evidence to support this idea.¹³

Including the previous year’s contributions reflects an assumption that the level of charitable contributions may not fully adjust to the economic climate in the current year. It takes time for donors to adjust their giving patterns, and they may make an effort to maintain their historical level of giving regardless of the economic climate. Further, this variable also allows us to incorporate the effect of non-economic factors that affect giving. For example, religious affiliation, age, and educational attainment all have been found to influence how much an individual gives.¹⁴ However, for society as a whole, these factors do not change much from year to year. So, while they help predict the general level of charitable contributions, they are less capable of predicting how contributions will change. By simply including the previous year’s contributions, we can account for their influence without needing to measure and enumerate them individually.

Results

From the model, we can examine the effect that a change in any one of the indicators will have on charitable contributions, assuming that all other variables remain unchanged.¹⁵

Our analysis suggests that a 1% increase in real GDP produces a 0.98% increase in charitable contributions, holding all else constant. For example, the US Department of Commerce reports that between 2011 and 2012, Wisconsin’s inflation-adjusted GDP increased by 1.02%. From that growth, charitable contributions to public charities in Greater Milwaukee would be expected to have increased by \$13.8 million between 2011 and 2012, assuming no other factors changed. A decrease in GDP would have the opposite effect. This is good news for nonprofits, especially in times when income is falling. Ignoring other factors, contributions should not be expected to fall faster than the overall economy. This is to say that donors do not appear to reel in their contributions any faster than the economy contracts in a type of knee-jerk reaction.

Moreover, we find evidence that changes in wealth, even if they do not necessarily imply a contemporaneous change in income, are positively associated with contributions. An increase in the S&P 500 may not directly affect income, but it does generate an expectation of increased future income. A 1% increase in the inflation-adjusted value of the S&P 500 index elevates charitable contributions by 0.51%. Since the S&P 500 is a good indicator of general asset and equity prices, an increase in the price

¹³ Randolph, William. (1995). “Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions.” *Journal of Political Economy*, Vol. 103(4), pp. 709-138.

¹⁴ Havens, O’Herlihy, and Schervish, 2006.

¹⁵ Complete estimation results and a discussion of econometric methodology are available in the appendix.

of other assets (e.g. real estate) is likely to have a similar effect on contributions. Our analysis finds that the opposite also is true. If equity or assets prices decline, charitable contributions will decrease.

Decreases in GDP often go hand-in-hand with falling equity prices. As a result, nonprofit organizations are likely to be hit with the negative effects of both factors. This is to say that in times of economic contraction, contributions may fall faster than GDP once its effect is combined with that of equity prices.

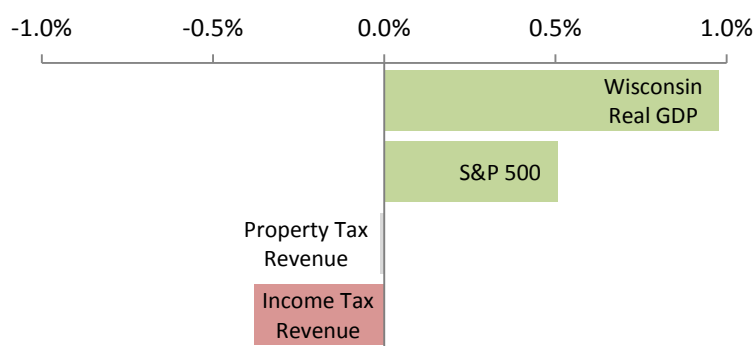
The reduction in contributions we would expect to see from a drop in income (GDP) alone, as described above, is actually tempered a bit by the mere fact that a recession is occurring. The prevailing explanation for this is that recessions increase the perceived need for contributions. As a result, those who are able to give continue to do so and may even give more. However, relative to the decline in GDP and equity prices associated with recessions, this positive effect is slight.

Our analysis suggests that increases in state and federal income taxes negatively affect charitable contributions. If revenue from income taxes goes up by 1% from an increase in income tax rates, charitable contributions would be expected to fall by 0.38%, assuming no change in the other variables. In 2012, a hypothetical increase of that magnitude would have amounted to a decrease in contributions of \$5.3 million. Having established earlier that contributions are sensitive to income, it is expected that anything which detracts from income, such as income taxes, would decrease the level of charitable contributions. Whether an increase in tax rates is worth the detriment it would cause to nonprofits, or whether it could be offset by extra governmental support to these organizations, is beyond the scope of this research, but should be considered by policymakers.

Local property tax rates are not found to have a discernable impact on the level of contributions received by public charities in the Milwaukee MSA. Our findings may be explained by the fact that individuals encounter property taxes differently from income taxes, and that property taxes are used for different purposes, as discussed previously. Given those distinctions, the different reaction to property taxes is reasonable. It should also be remembered that public charities that receive a considerable amount of contributions from donors outside the Greater Milwaukee area would not be affected by changes to local property tax rates.

Figure 12 below summarizes the effect of changes in economic and fiscal variables on contributions. The effect of a 1% increase in GDP is nearly double that of a 1% increase in the S&P 500. While property tax rates are not found to influence contributions, increases in income taxes have a decisively negative impact. However, this effect is smaller than that of GDP and the S&P 500.

Figure 12: Estimated Effect on Contributions of a 1% Increase in...



Source: Authors' calculations



We also find that Greater Milwaukee's giving patterns are not solely dictated by the current economic environment. Instead, giving also is influenced by the events of the previous year. If the growth rate of contributions in the previous year was positive, then assuming that the other factors have not changed, the growth rate in the current year is expected to be negative, but by approximately half the magnitude of the previous year's growth. For example, if charitable contributions had increased by 5% last year, then we would expect them to fall by approximately 2.5% this year, assuming that GDP, the S&P 500, and income taxes remained unchanged. The reverse also would be true, and a negative growth rate the previous year would suggest a positive growth rate this year, but of a lesser magnitude.



Key Policy Considerations

In looking at the current state of Greater Milwaukee's nonprofit sector and its historical activity at the sector-wide level, two policy considerations emerge. The first relates to the growing number and diversity of nonprofit organizations and how that impacts the quest for philanthropic support, while the second relates to the sustainability of recent trends that show overall growth in the nonprofit sector but smaller organizational capacity.

Diversity

One question that emerges after examining the historical trends is how to reconcile the growth of the sector as a whole with diminishing per-organization revenues and contributions. The data suggest that we are seeing an increase in the level of competition among nonprofit organizations and a diversification of the sector. Indeed, more organizations suggest greater diversity, even if those organizations are smaller.

For example, in 1989, there may have been an organization or two devoted to promoting and supporting the work of minority entrepreneurs. Today, we see separate organizations for African-American, Hispanic, LGBT, and women-owned enterprises. Commensurate with the more attenuated missions, the size of the average organization, measured by revenue, has become smaller. This trend is reinforced by the fact that the overall nonprofit sector has not grown as fast as the number of organizations. Simply put, the "pie" is growing, but the number of organizations vying for a slice is growing faster.

While we can address the question of why per-organization revenue is declining, it is harder to answer the question of whether or not the trend conveys a positive or negative influence on the nonprofit sector. On the one hand, greater competition for funds promotes greater efficiency in the nonprofit sector. The market will reward those organizations that can accomplish the most with the least amount of money and motivate nonprofit leaders to find new ways of improving efficiency and capacity. Greater diversity also suggests that the region is recognizing the unique needs of different groups and finding ways to serve them in a targeted manner. Accordingly, as mentioned earlier, the density of nonprofits in metro Milwaukee has more than doubled. In essence, this line of reasoning suggests that the nonprofit sector, as a result of its diversity and competition, should become better at connecting with donors and with the constituencies its organizations seek to serve.

On the other hand, increased competition means that these organizations must dedicate more resources to securing funding, wooing donors, and publicizing the work they do. Such activities can raise overhead costs and actually reduce the amount of money available to further the organization's mission. In addition, competition may trump collaboration as a priority of public charities, even though collaboration should become more important as organizations shrink in size.

The trend toward greater diversity and greater competition is most extreme among non-church religious organizations. This category's individual profile (**page 36**) shows that the number of public charities in this category grew by 327% between 1989 and 2011, more than any other category. Nevertheless, this is the only category to experience a net decline in aggregate revenue over the same period. As a result, per-organization revenue has fallen by more than 80% since 1989.



Finally, as the number of organizations increases, it becomes more difficult for donors to determine where to dedicate their contributions. The capacity to research thoroughly and weigh information from contending organizations does not exist for the average donor. A truly meritorious organization may get lost in the shuffle, while a less reputable organization is able to grab the donor's attention and dollars. While services such as Charity Navigator, donor-advised funds, and institutional philanthropy are working to mitigate the effects of this information problem, there is also evidence that smaller donors are largely insensitive to reports of an organization's success or failure.¹⁶

Sustainability

Figure 9 on page 10 shows that since 1989, the nonprofit sector has grown faster than GDP. The laws of mathematics and economics suggest that this trend cannot continue indefinitely, though there may be room for more growth. Based on the most recently available data, contributions as a share of GDP are nationally at 2.2%. In Wisconsin, contributions total 1.7% of GDP. This figure implies that the nonprofit sector can continue to grow faster than the overall economy before reaching the national level of saturation.

In the future, however, it is reasonable to expect the growth rate of the nonprofit sector to slow down and eventually converge with the overall rate of economic growth. We can look to the Human Services category for an example of how this might manifest itself. As shown in that category's individual profile (**page 32**), between 1989 and 1999, growth in aggregate revenue and contributions was virtually exponential in nature and greatly outpaced GDP. However, the category became largely saturated after that period in terms of new revenue opportunities. Instead of entering a period of decline, growth simply slowed to a near standstill.

Economically, this suggests that the category did not "overshoot" the size that the economy can sustain. As GDP continued to grow after 1999, the disparity between economic growth and category growth declined. Considering the characteristics of the Human Services category, this experience likely is transferrable to the sector as a whole.¹⁷ Accordingly, there is little reason to think that the sector will eventually grow beyond its capacity and tumble down, as is common in a traditional economic bubble. Instead, growth is more likely to taper off gently.

The trend toward smaller organizations, as indicated by declining per-organization revenue and contributions, is potentially concerning. As discussed above, smaller organizations have their benefits. Nevertheless, for organizations that have been active over the last few decades, this trend has threatened some of their most critical programs and necessitated leaner, more efficient operations. A 2011 survey of Wisconsin nonprofits found that 38% of organizations planned to reduce or modify services and 51% of organizations had cash reserves of three months or less.¹⁸

¹⁶ Karlan, Dean and Daniel Wood. (2014). "The Effect of Effectiveness: Donors Response to Aid Effectiveness in a Direct Mail Fundraising Experiment." *Yale University Economic Growth Center*. Discussion Paper No. 1038.

¹⁷ The human services category may be the best proxy for the entire nonprofit sector. Not only does this category include 684 organizations, providing a large sample, but the breadth of organizations included also provides a high degree of balance.

¹⁸ Warland, Gayle. (06 Dec 2011). "'New normal': Nonprofits struggling with budget cuts." *Wisconsin State Journal*.

Further, some programs need a certain scale to be sustainable. A homeless shelter that offers three or four beds serves a worthwhile cause, but it will likely not be as efficient as one that has 40 beds. As the organization's revenue declines, the shelter with 40 beds may find it hard to maintain its operations. In this way, it is possible that the current trends threaten the stability of existing programs.

It is also possible that as organizations scale down their operations and adapt to being smaller, the region's nonprofit sector may lose its capacity to administer large programs, even when funding can be secured. For example, if homelessness becomes a legislative priority in the future, it may be that no organizations exist with the capacity to run a large shelter even if appropriations are made available. There is, therefore, a real concern that the trend towards smaller organizations may threaten to erode some of the infrastructure that the nonprofit sector requires to take on certain government-funded tasks.

Additional research may be needed to identify the consequences of declining per-organization revenue. Our analysis, however, strongly suggests that this trend is unlikely to reverse. In fact, to elevate per-organization revenues back to their 1989 values, the nonprofit sector would need to secure an extra \$500 million in revenue per year without adding a single organization.

Our analysis also implicitly assumes that the same funding infrastructure will continue to exist in the future. That is to say that households, foundations, government appropriators, and nonprofit service consumers will continue to behave in predictable ways that are consistent with their historical patterns. While valid in the short run, this assumption may not hold over a longer time horizon. With some of Greater Milwaukee's most prolific foundations scheduled to sunset in the near future, including the Faye McBeath Foundation at the end of 2014, the Helen Bader Foundation in 2019, and the Jane Bradley Pettit Foundation in 2026, the future of philanthropy is unknown.¹⁹ It remains to be seen whether the remaining philanthropic community or possible new entrants can fill the gap left by these foundations.

Demographic shifts also may change the way that households and foundations give in substantial ways. Such trends include an aging population, the rising power of younger donors, and a more gender-diverse donor base, among others.²⁰ The future of the nonprofit sector depends on organizations' ability to adapt and leverage these trends.

¹⁹ Sunsetting refers to a foundation which is spending down its assets and planning to discontinue operations. Kahn-Oren, Elana. (28 July 2009). "Smaller allocations and cuts in Bader grants leave community in flux." *The Wisconsin Jewish Chronicle*.

Kirchen, Rich. (14 Jan 2011). "Four foundations set to close." *Milwaukee Business Journal*.

Schertz, Alysha. (18 Feb 2011). "Into the sunset. Milwaukee braces for impact as key foundations wind down." *BizTimes Media*.

²⁰ Lewis, Nicole. (11 Aug 2013). "Raising Money in a Changing World." *The Chronicle of Philanthropy*.

Conclusion

This report set out to examine revenue trends in Greater Milwaukee's nonprofit sector from 1989 to 2011 and to understand how contributions—one of the most critical revenue sources for these organizations—behave in response to certain economic factors. Our key findings include the following:

- **The nonprofit sector is growing in terms of overall revenue, total contributions, and number of organizations.** In 2011, total revenue for public charities in Greater Milwaukee was \$3.68 billion, of which \$1.4 billion (38%) came from contributions. Since 1989, revenue has grown at an annualized rate of 4% per year, while contributions have grown slightly faster at 4.5%. However, revenue and contributions can be exceptionally volatile. Measured by statistical variance, revenue and contributions are approximately three times as volatile as GDP.
- **Since 1989, the nonprofit sector has grown nearly twice as fast as the overall economy.** This robust growth appears to be sustainable. In fact, our data suggest that the sector can continue to grow before the economy reaches its capacity to carry these organizations. While that growth is impressive and has allowed organizations to provide critical services, however, it cannot be maintained indefinitely. Instead, our research suggests that the sector's growth rate will begin to slow down until converging with the rate of overall economic growth.
- **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. As a result, organizations must either do more with less money or scale back their operations.

The downward trend in per-organization revenues raises questions about nonprofit capacity. First and foremost, it is likely that many of the services provided by nonprofit organizations require a certain scale to be sustainable. 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.

Second, as organizations become smaller, there is the threat that Greater Milwaukee's nonprofit infrastructure will begin to erode. Even if sufficient funding can be secured for large programs, there is the possibility that no suitable nonprofit organizations will be in a position to administer them. Organizations may be too small, lack the expertise, or be unwilling to accept the risk of expanding their operations only to have funding reduced again. In the absence of nonprofit providers, there is a question of whether government agencies or private enterprises would be willing and able to fill the void.

Measuring the extent and severity of those concerns requires further research. Nevertheless, it may behoove government bodies and even institutional philanthropists, who wish to see the greatest return on their substantial gifts, to work with beneficiary organizations to build nonprofit capacity and expertise.²¹

²¹ This is not to say that public charities are incapable of building capacity on their own. However, governments and institutional philanthropists often have access to a wider array of resources to help in that



- **Since 1989, the density of public charities in Greater Milwaukee has doubled.** Since no two public charities are identical in their purpose and programs, a larger number of organizations implies that the sector is now addressing the needs of a greater share of the population or that organizations are targeting their missions to be more effective. In 1989, there was one public charity per 1,603 Greater Milwaukee residents. By 2011, there were 646 residents for every public charity.
- **Increases in the level of contributions have been driven primarily by rising incomes and growing asset prices.** If no other economic factors changed, charitable contributions would grow virtually at the same rate as Wisconsin's GDP. The fact that contributions have so outpaced the economy since 1989 is largely attributable to the benefit conferred by rising equity (stock) prices. Since equity prices are an indicator of future wealth, rather than current income, this result suggests that charitable giving can grow even when "take-home" income does not.
- **There is evidence to suggest that recessions dampen the negative effect of falling income levels.** If the economy grows by 1%, charitable contributions will grow by nearly the same amount, ignoring all other factors. However, if the economy enters a recession and GDP falls by 1%, the level of contributions will actually fall by a slightly lesser amount. This effect is quite small, however, relative to the negative effects of GDP contraction and falling equity prices that are characteristic of economic recessions.
- **Increases in income taxes are found to have a deleterious effect on charitable contributions.** A 1% increase (decrease) in income tax revenue from an increase in tax rates is found to reduce (increase) charitable contributions by 0.38%, assuming GDP and other factors remain unchanged. Conversely, marginal changes in local property tax rates are not found to have a statistically significant impact on charitable contributions received by public charities in the Milwaukee metropolitan area.

We hope this report is used by policymakers, civic leaders, and citizens to assess the current condition of the nonprofit sector, the services it provides, and its unique position in amalgamating the efforts of individual citizens, philanthropists, and governments in building stronger communities. On the whole, it is reassuring to find that the sector has expanded considerably in the past 25 years and that the philanthropic contributions that support it have similarly increased. Nevertheless, our analysis also raises questions about the ability of individual nonprofit organizations to maintain an appropriate scale and retain capacity to meet the needs of citizens in the future.

While we can identify these broader concerns, the scope of this analysis and the limitations of existing data prevent us from verifying them and identifying options to address them. 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 our community.

process. Moreover, from the perspective of a public charity, it can be difficult to justify allocating scant resources to investments in administrative capacity and efficiency when donors expect their contributions to go to providing services—even when the investment in capacity is in the long-term interest of the organization, its programs, and the population it serves.



Individual Profile: ARTS, CULTURE, AND ENTERTAINMENT

NTEE
Code: A

1

Key Figures

Number of Organizations (2011)	232
Total Revenue (2011)	
Overall	\$198,593,392
Per Organization	\$856,006
Annual Growth in Revenue (1989-2011)	
Overall	+2%
Per Organization	-2%
Total Contributions (2011)	
Overall	\$90,606,902
Per Organization	\$390,547
Annual Growth in Contributions (1989-2011)	
Overall	+1%
Per Organization	-3%

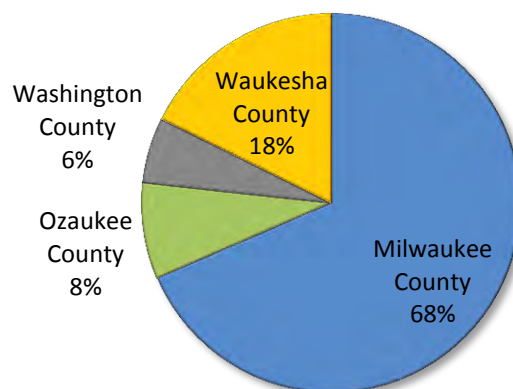
2

Just to name a few...

Betty Brinn Children's Museum
First Stage Milwaukee Inc. Performing Arts Center
Milwaukee Art Museum
Milwaukee Film Inc.
Milwaukee Public Museum
Milwaukee Symphony Orchestra
MPTV Friends Inc.
Waukesha County Historical Society and Museum

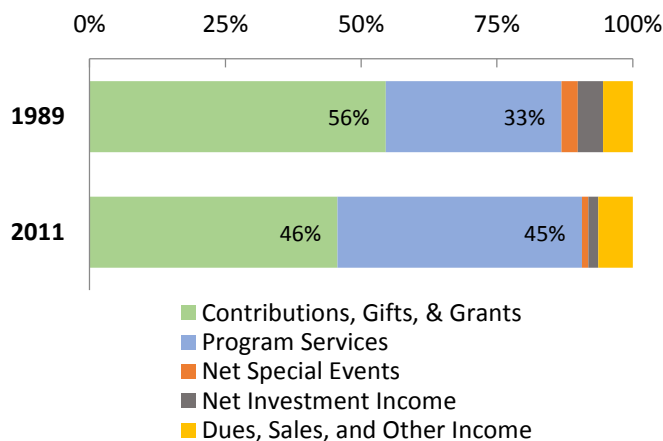
3

Where are they located? (2011)



4

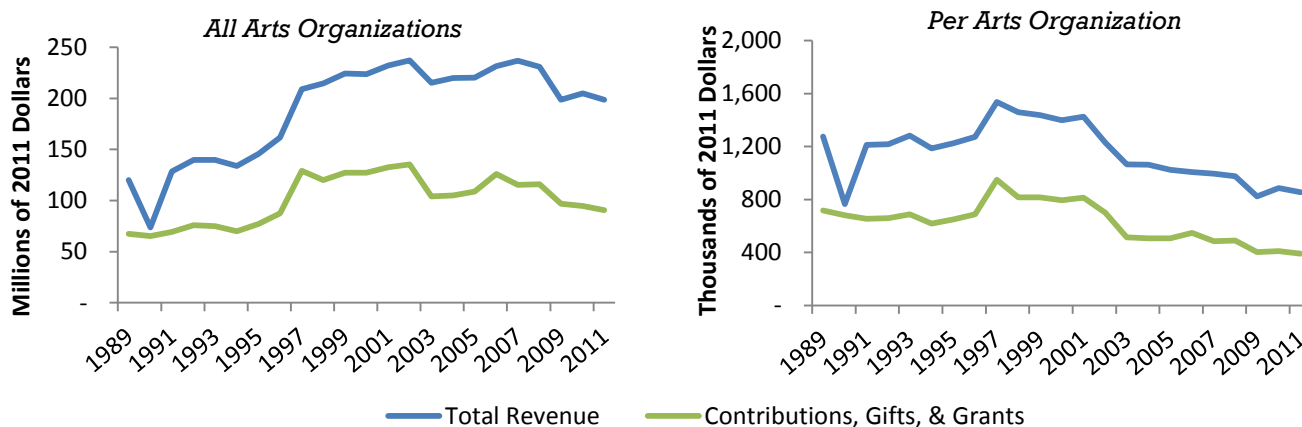
Revenue Shares



ARTS FACT: The Quadracci Pavillion at the Milwaukee Art Museum was Santiago Calatrava's first building in the United States.

5

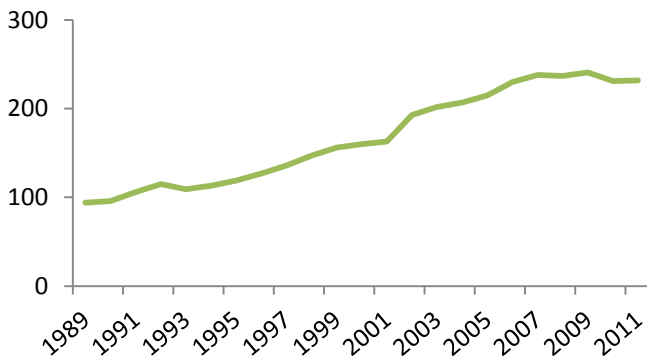
Revenues and Contributions



Individual Profile: Arts, Culture, and Entertainment (Continued)

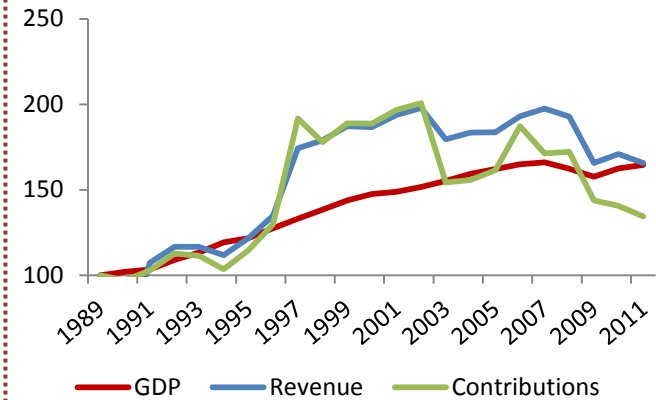
6

Number of Arts Organizations



7

Indexed Growth of GDP, Revenue, and Contributions (1989=100)



Summary

Greater Milwaukee has seen substantial growth in the Arts, Culture, and Entertainment category since 1989. As indicated in Panel 6, there were 232 organizations in this category in the metropolitan area in 2011. This is an increase of 147% since 1989 and suggests that there is greater diversity among organizations in this category.

To support these new organizations, total contributions have increased by 34% and revenues by 66% since 1989, as seen in Panel 5. However, because growth in the number of organizations has outpaced that of aggregate revenue, the average organization in this category has seen its revenue decline by approximately 1.8% per year. Even though there is more money available to fund these organizations, competition for funds has increased significantly.

Panel 7 shows that revenues and contributions have behaved fairly erratically. By 2002, contributions were double their 1989 level, but then fell 34% by 2011. Moreover, it is apparent that revenues have not yet recovered from the turbulence of the Great Recession. This volatility makes it difficult for organizations to establish accurate revenue projections even over a short time horizon. While there is a clear need for long-term planning to ensure stability when contributions and revenues decline, unpredictable revenue growth makes this exceptionally difficult. Panel 4 suggests that one way organizations in this category are addressing this issue is by relying more on program revenue than contributions.

The trends identified since 1989 indicate an unsettled future for the Arts, Culture, and Entertainment category. While revenues and contributions may be expected to resume growing in the near future, the high degree of competition in this area may threaten the sustainability of its largest and most costly programs without government or philanthropic support.

COMMUNITY IMPROVEMENT

NTEE
Code: S

1

Key Figures

Number of Organizations (2011):	125
Total Revenue (2011)	
Overall	\$175,946,051
Per Organization	\$1,407,568
Annual Growth in Revenue (1989-2011)	
Overall	+3%
Per Organization	-2%
Total Contributions (2011)	
Overall	\$86,242,380
Per Organization	\$689,939
Annual Growth in Contributions (1989-2011)	
Overall	+10%
Per Organization	+5%

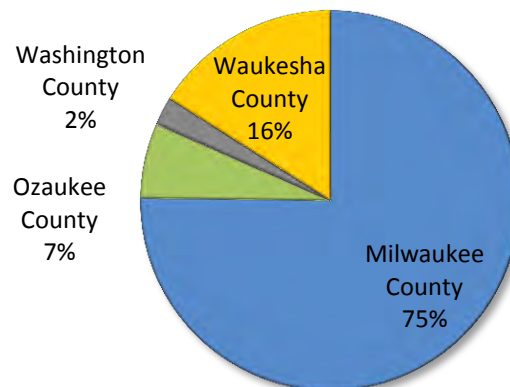
2

Just to name a few...

American Marketing Association Inc.
 Historic Third Ward Association Inc.
 Hunger Task Force Inc.
 Martin Luther King Economic Development Corp.
 Milwaukee Economic Development Corp.
 Pan African Community Association
 IMPACT Planning Council Inc.
 Public Allies Inc.

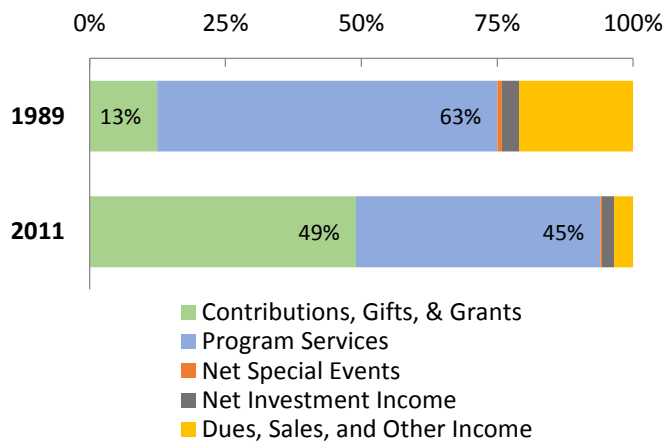
3

Where are they located? (2011)



4

Revenue Shares

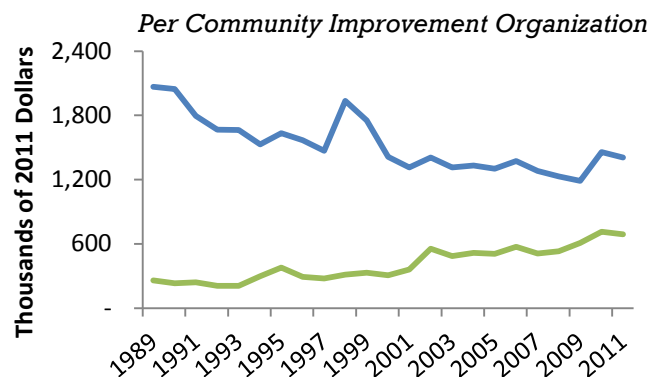
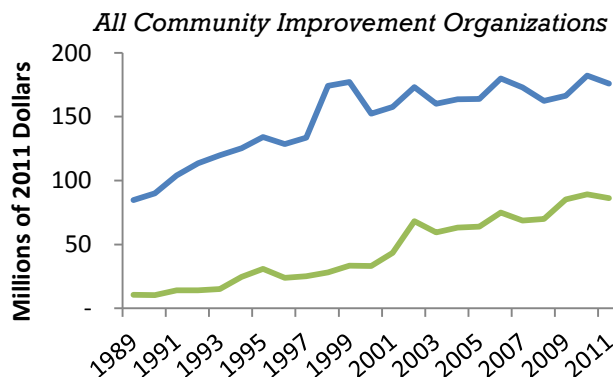


COMMUNITY FACT:

Brownfield redevelopment efforts are credited with creating 3,384 jobs in the City of Milwaukee since 1990.

5

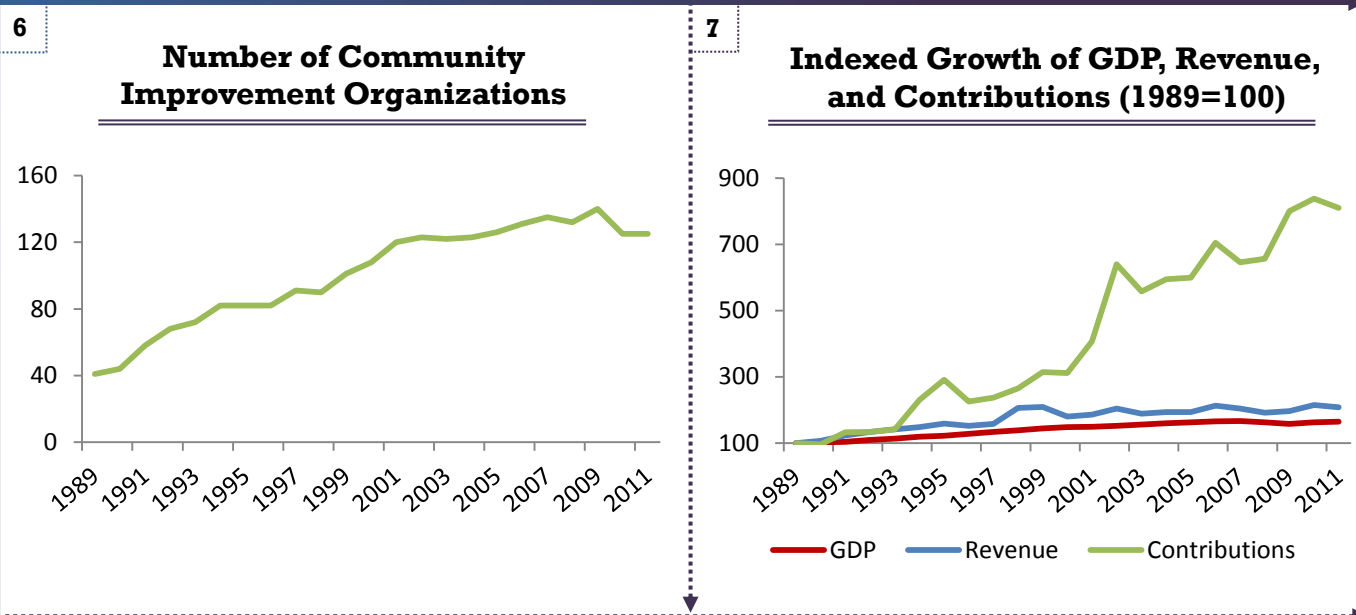
Revenues and Contributions



— Total Revenue — Contributions, Gifts, & Grants



Individual Profile: Community Improvement (Continued)



Summary

Community Improvement encompasses organizations involved in economic development, neighborhood associations, chambers of commerce, as well as community service clubs (e.g. Kiwanis and Rotary Clubs).

Since 1989, the number of organizations in the Community Improvement category has nearly tripled, growing from 44 public charities in 1989 to 121 by 2011. Increases in the number of active organizations have been met with growth in revenue and contributions. As Panel 1 indicates, the aggregate revenue of organizations in this category has grown by 3.4% per year over the time period of our analysis. Contributions have grown at a pace of 10% annually, which is partially attributable to the fact that this category was largely in its infancy in 1989. Donor bases and infrastructure were not fully developed at that time.

The magnitude of the growth in contributions is evident in Panel 7. Contributions now make up nearly half of all revenue for community improvement organizations. This is not surprising considering the nature of community development. In essence, it is difficult to charge fees to individuals for community improvement activities because the benefits accrue to society as a whole. Thus, contributions or gifts for which nothing is explicitly received in return are a more appropriate way of funding these organizations. Given the revenue trends seen in Panel 5, it is reasonable to expect that the share of contributions in total revenue will continue to grow.

Growth in this category may be driven by increased awareness of community improvement programs and reports of their successes. As this category becomes saturated and competition increases, the 5% annual increase in contributions per organization is not likely to be sustainable much further into the future. In fact, as Panel 5 shows, overall revenue per organization is already decreasing, even as contributions grow. However, given the strong support for community development programs in Greater Milwaukee and a proven willingness of public and private sources to fund these endeavors, it is likely that this category will continue to grow, albeit at a slower pace.



Individual Profile: EDUCATION

NTEE
Code: B

1

Key Figures

Number of Organizations (2011):	443
Total Revenue (2011)	
Overall	\$473,644,060
Per Organization	\$1,069,174
Annual Growth in Revenue (1989-2011)	
Overall	+8%
Per Organization	+2%
Total Contributions (2011)	
Overall	\$196,659,880
Per Organization	\$443,927
Annual Growth in Contributions (1989-2011)	
Overall	+8%
Per Organization	+2%

2

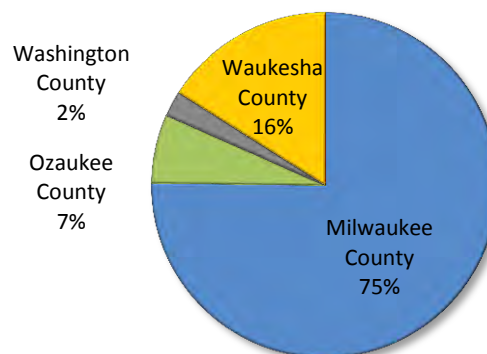
Just to name a few...

Atlas Preparatory Academy
Carmen High School of Science and Technology
Discovery World Ltd.
Dominican Center for Women Inc.
Milwaukee Jewish Day School Inc.
National Centers for Learning Excellence Inc.
School Choice Wisconsin Inc.
Washington County Home School Athletics

Excluded: Undergraduate Colleges (B42), Universities (B43), Graduate and Professional Schools (B50)

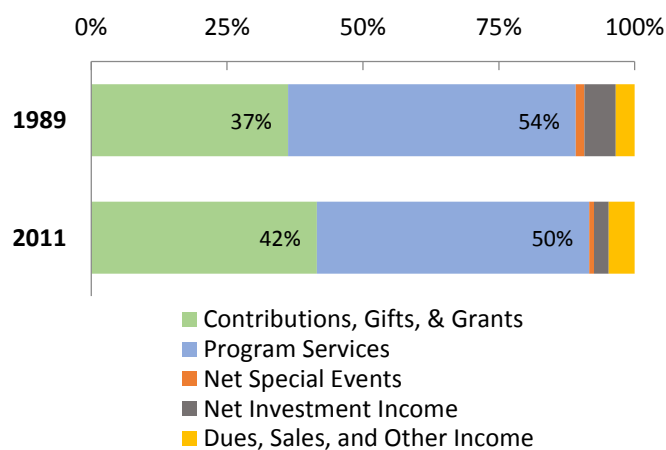
3

Where are they located? (2011)



4

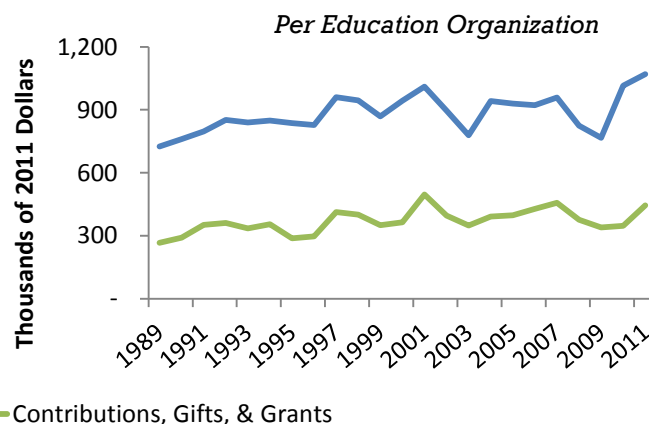
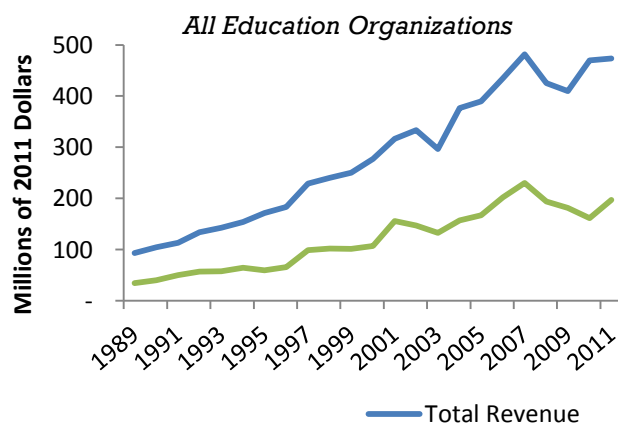
Revenue Shares



EDUCATION FACT: Milwaukee is home to 11 "arts specialty" schools, including 8 traditional schools, 2 MPS charter schools, and 1 UWM charter school.

5

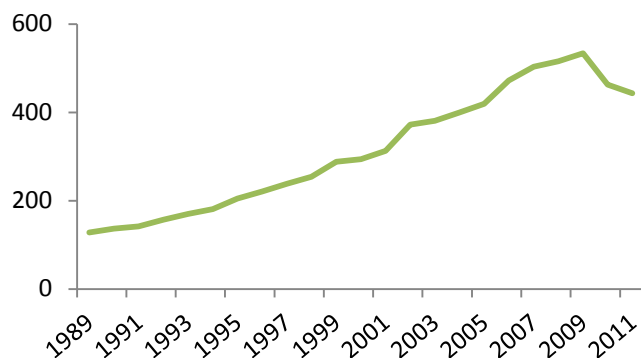
Revenues and Contributions



Individual Profile: Education (Continued)

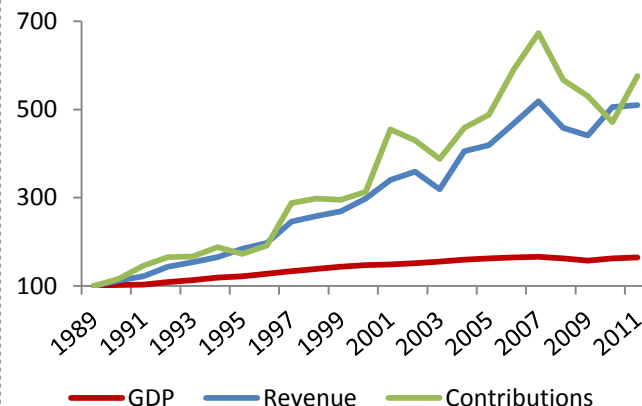
6

Number of Education Organizations



7

Indexed Growth of GDP, Revenue, and Contributions (1989=100)



Summary

Our analysis of the Education category excludes universities and professional schools. The reason for this is that these institutions often have revenues greatly exceeding the median, which causes them to exert a dominating effect on trends.

Unlike many other categories, Education is seeing a rise in revenue and contributions both on an aggregate and per-organization level, as shown in Panel 5. This growth is particularly impressive when one considers that the number of public charities in this category grew by 246% from 1989 to 2011 (Panel 6).

The growth in the number of organizations and revenue in this category may be linked to Milwaukee's unique education system. Milwaukee's voucher program and array of non-traditional public and private schools have grown in size over the last several years, as we have documented in previous education research reports.

Although the need for strong education programs and services does not diminish in times of recession, these organizations are not immune from the effects of an adverse economic climate. As can be seen in Panel 7, contributions fell dramatically in the aftermath of the 2001 and 2008 recessions. While aggregate revenues have rebounded, contributions have yet to climb back to their 2007 peak.

This finding raises a potential concern about sustaining and protecting the quality of education programs, as well as individuals' access to them during periods of economic downturn. Since education produces long-run benefits to individuals and communities, even a temporary disruption could have an impact on Greater Milwaukee for years into the future.

Individual Profile: ENVIRONMENT AND ANIMAL-RELATED

NTEE Codes:
C, D

1

Key Figures	
Number of Organizations (2011):	71
Total Revenue (2011)	
Overall	\$52,662,914
Per Organization	\$741,731
Annual Growth in Revenue (1989-2011)	
Overall	+8%
Per Organization	+1%
Total Contributions (2011)	
Overall	\$40,725,834
Per Organization	\$573,603
Annual Growth in Contributions (1989-2011)	
Overall	+10%
Per Organization	+3%

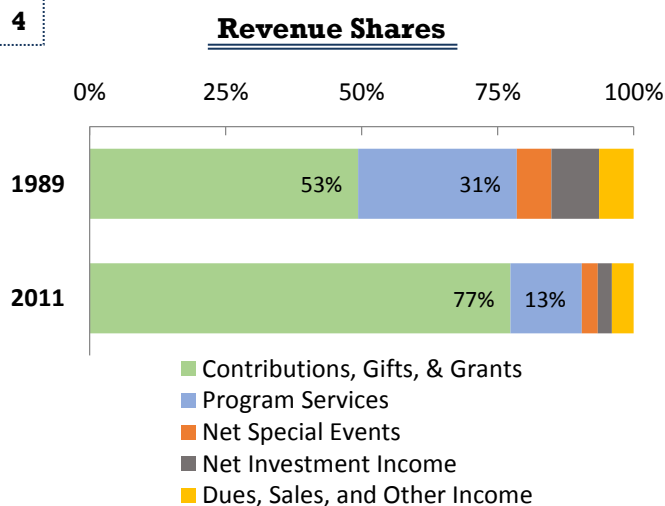
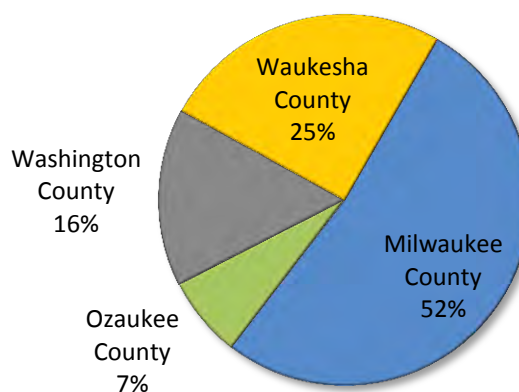
2

Just to name a few...

Cedar Lakes Conservation Foundation Inc.
Friends of Schlitz Audubon Center Inc.
Groundwork Milwaukee Inc.
Rock the Green Inc.
Urban Ecology Center
Wildlife in Need Center Ltd.
Wisconsin Humane Society
Zoological Society of Milwaukee County

3

Where are they located? (2011)

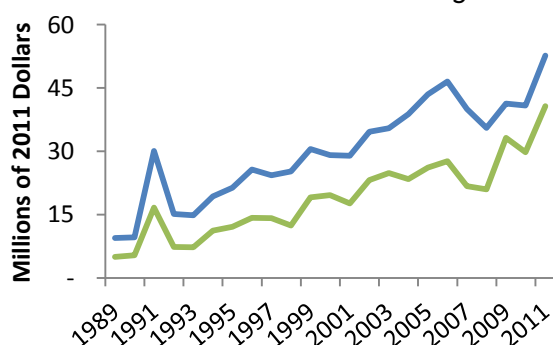


ENVIRONMENT FACT: The Wisconsin Humane Society provides care for 24,000 animals per year, including 5,000 wild animals.

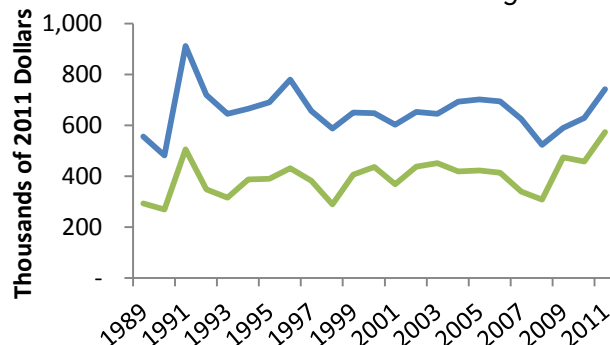
5

Revenues and Contributions

All Environment and Animals Organizations



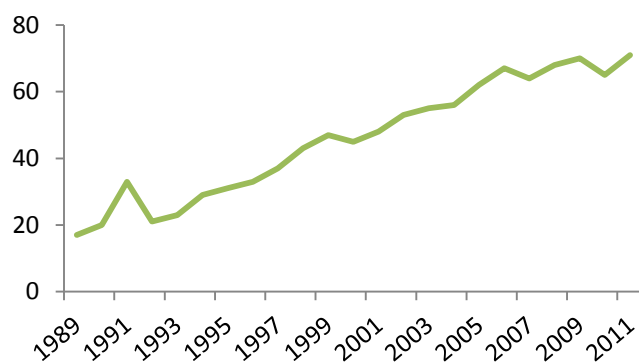
Per Environment and Animals Organization



Individual Profile: Environment and Animal-Related (Continued)

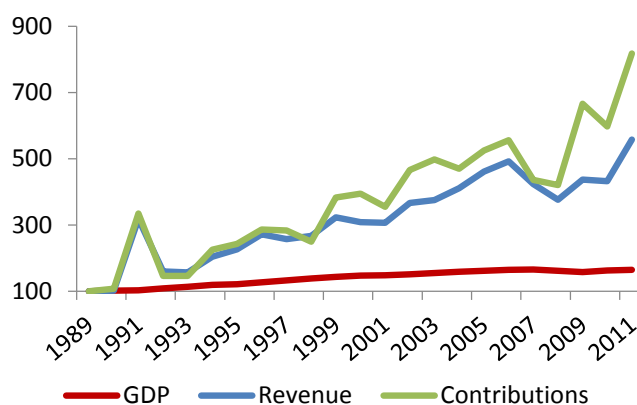
6

Number of Environment and Animal-Related Organizations



7

Indexed Growth of GDP, Revenue, and Contributions (1989=100)



Summary

The Environment and Animal-Related category is one of the smallest nonprofit categories in terms of the number of organizations and average revenue. While only 17 such organizations existed in Greater Milwaukee in 1989, the number of organizations grew 318% to 71 by 2011.

Strong growth in this category is also evident in overall revenues and contributions, as shown in Panel 5. While the effect of the Great Recession is clear, the category has recovered by all accounts. Further, it may be tempting to ascribe a spike in the early 1990s and its subsequent tumble to the recession in 1991. However, considering the fact that only a small number of organizations existed at that time, that turbulence might have been caused by a large, one-time gift to an organization or some other unpredictable event. Available data do not allow us to identify the exact nature of the spike.

As seen in Panel 7, revenues and contributions have greatly outpaced GDP growth. This is not particularly surprising, considering the novelty of the category and growing awareness of environmental issues. As this category becomes more saturated with organizations and the donor base solidifies, growth likely will taper. Limited data, however, prevent us from predicting how soon that will occur.

Consistent with the nature of improving the environment and, to some degree, caring for animals, there has been a noticeable shift towards contributions as the dominant source of revenue. Since contributions come with fewer restrictions than program revenue, organizations may be able to engage in activities that benefit a wider audience and operate programs whose benefits accrue to many people.

Individual Profile: HEALTH AND HEALTHCARE

NTEE Codes:
E, F, G, H

1

Key Figures

Number of Organizations (2011):	277
Total Revenue (2011)	
Overall	\$1,391,347,347
Per Organization	\$5,022,915
Annual Growth in Revenue (1989-2011)	
Overall	+5%
Per Organization	+2%
Total Contributions (2011)	
Overall	\$233,319,503
Per Organization	\$842,309
Annual Growth in Contributions (1989-2011)	
Overall	+4%
Per Organization	+1%

2

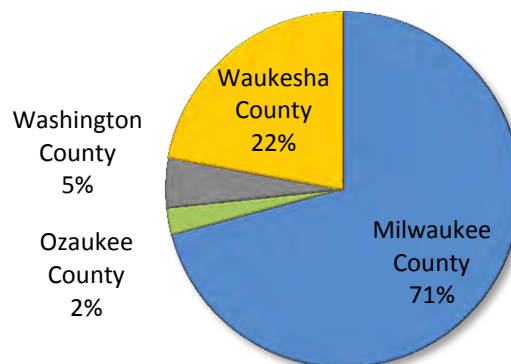
Just to name a few...

ABCD Inc. (After Breast Cancer Diagnosis)
Black Health Coalition of Wisconsin
BloodCenter of Wisconsin Inc.
Brady East STD Clinic
Impact Alcohol and Other Drug Abuse Services Inc.
Make a Wish foundation of Wisconsin Inc.
Outreach Community Health Centers Inc.
South Side Guadalupe Dental Clinic Inc.

Excluded: Hospitals (E20, E22, E24), Community Health Systems (E21), Group Health Practices (E31)

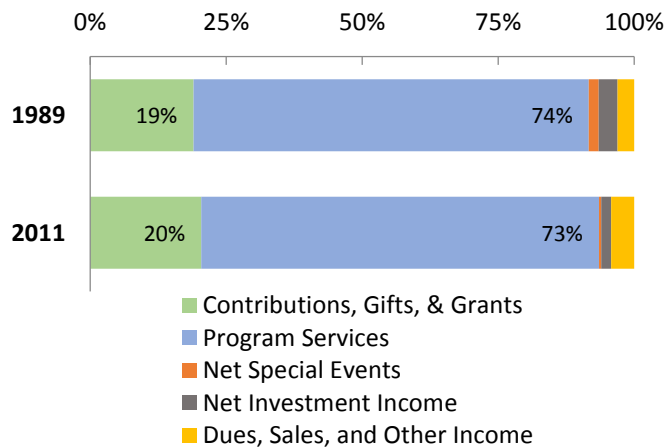
3

Where are they located? (2011)



4

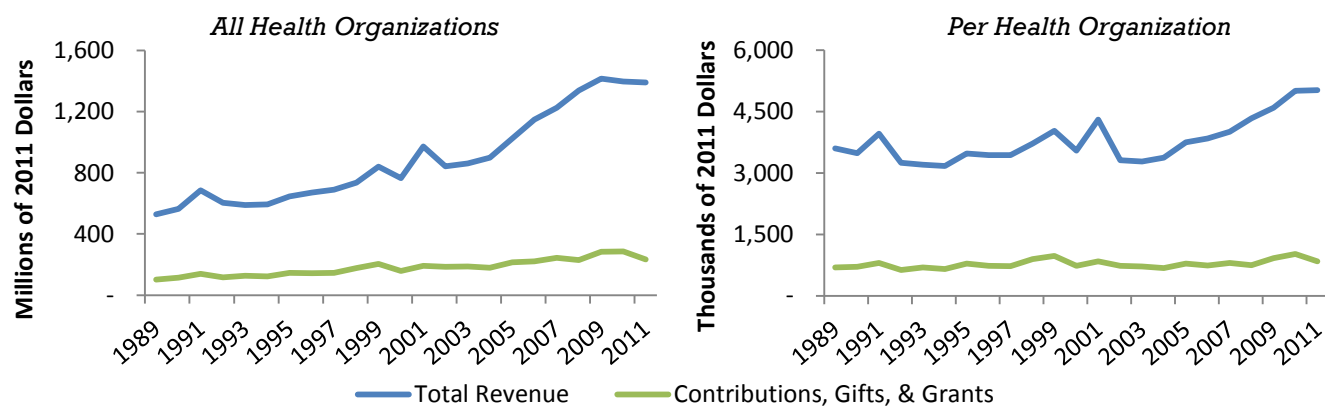
Revenue Shares



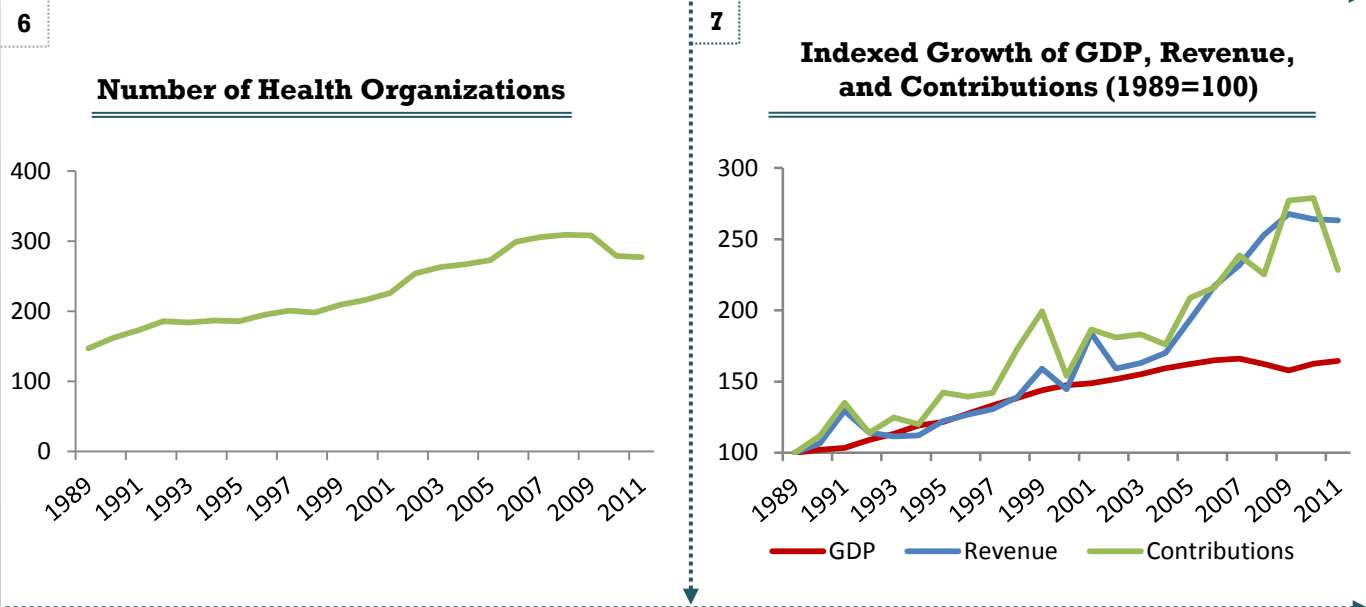
HEALTHCARE FACT: More than 300,000 units of blood and blood components are provided annually by the BloodCenter of Wisconsin.

5

Revenues and Contributions



Individual Profile: Health and Healthcare (Continued)



Summary

Our analysis of the Health and Healthcare category excludes hospitals, insurance programs, and group health practices registered as public charities. While such organizations are pillars of the community, their sheer size and business models render them as outliers that obscure trends experienced by smaller organizations.

Panel 5 shows the development of revenue and contributions since 1989. This category has experienced strong growth, with revenue increasing at an annual rate of 5%. However, the extent to which revenue growth is driven by the increasing cost of healthcare versus growth in the services provided is not entirely clear. The number of organizations in this category had been growing consistently until 2009. This provides some evidence that more services are being provided in the Greater Milwaukee area.

While contributions make up only a small share of health-related organizations' revenue, they too have shown steady growth of 4% per year. Panel 5 shows that on a per-organization level, contributions have been largely static, growing at an annual rate of only 1% per year.

Healthcare is an industry that constantly is impacted by external factors, such as changes in Medicaid eligibility and reimbursement policies at the state level, behavioral healthcare policies at the county level, or the Affordable Care Act at the national level. Consequently, future growth and contribution trends are difficult to predict.

Individual Profile: HUMAN SERVICES

NTEE Codes:
I, J, K, L, M, N, P

1

Key Figures

Number of Organizations (2011):	684
Total Revenue (2011)	
Overall	\$986,714,686
Per Organization	\$1,442,565
Annual Growth in Revenue (1989-2011)	
Overall	+4%
Per Organization	-1%
Total Contributions (2011)	
Overall	\$499,828,293
Per Organization	\$730,743
Annual Growth in Contributions (1989-2011)	
Overall	+5%
Per Organization	0%

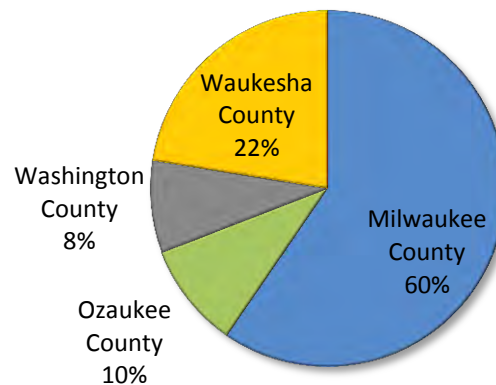
2

Just to name a few...

Adoption Resources of Wisconsin Inc.
Catholic Charities of the Archdiocese of Milwaukee
Community Advocates Inc.
Ebenezer Child Care Centers Inc.
Italian Community Center Inc.
Jewish Family Services
Legal Aid Society of Milwaukee
Safe & Sound Inc.

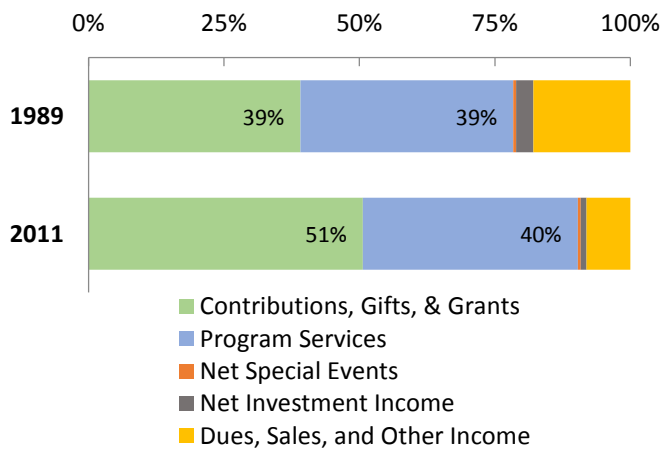
3

Where are they located? (2011)



4

Revenue Shares

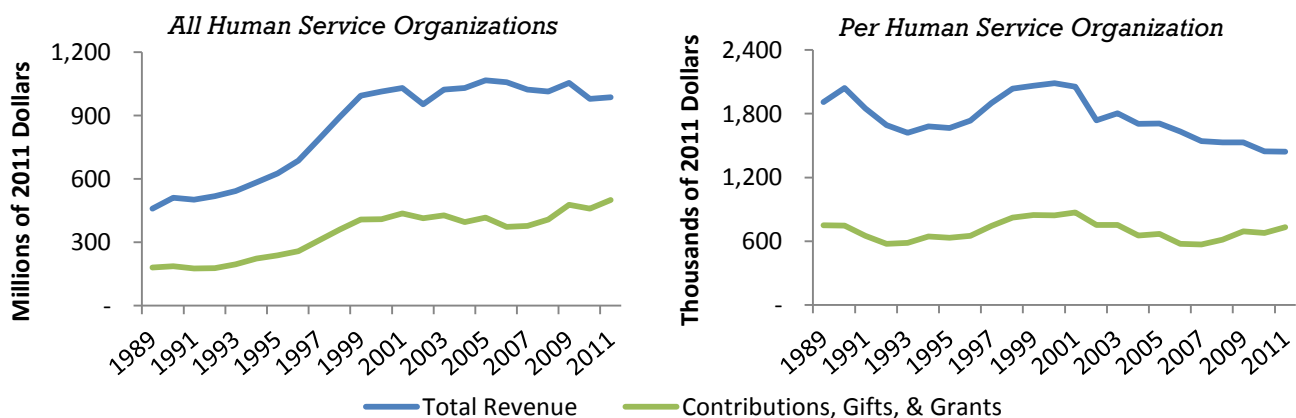


HUMAN SERVICES FACT:

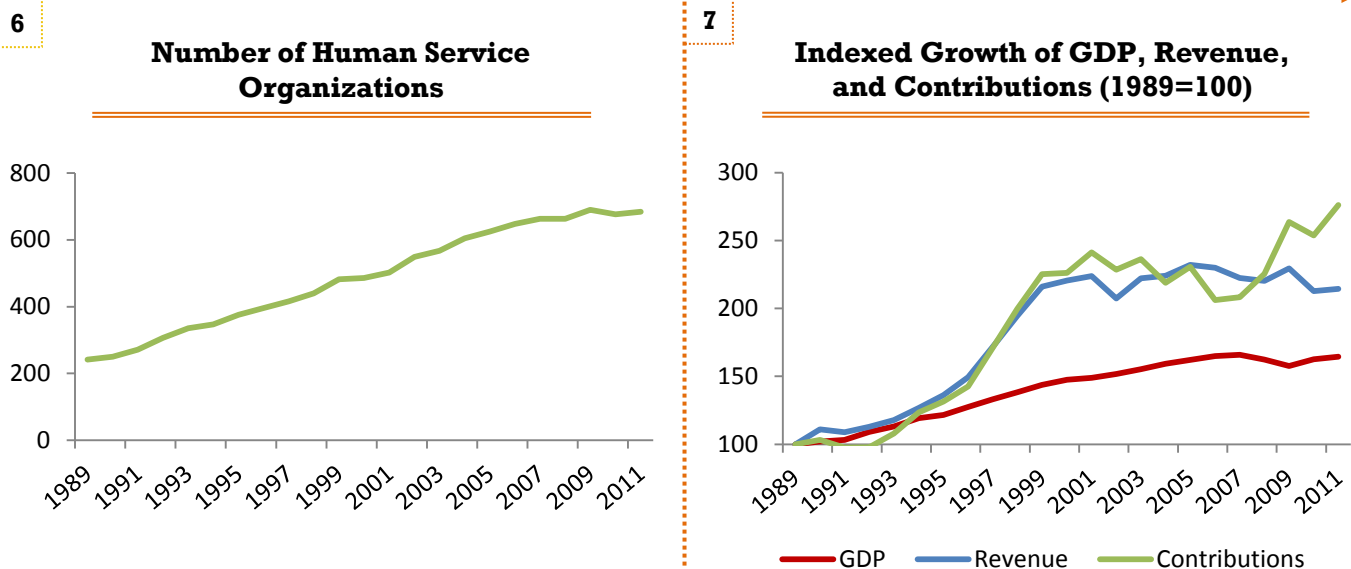
The Legal Aid Society of Milwaukee provides free legal services to more than 7,000 individuals annually.

5

Revenues and Contributions



Individual Profile: Human Services (Continued)



Summary

Human Services is a broad category that includes crime and legal; employment; food, agriculture, and nutrition; housing and shelter; public safety; and recreation and sports organizations. This category also demonstrates some of the nuances in the classification system. For example, the IRS classifies Catholic Charities of the Archdiocese as a human service organization, as opposed to a religion-related charity. The reason for this is that its activities are not limited strictly to religious undertakings, even if religion plays a central role in the organization's mission.

As a whole, this category has a history of weathering recessions and adverse economic climates quite well. As seen in Panels 5 and 7, recessions in 1991, 2001, and 2008-2009 do not have an unambiguously negative effect on revenues. This quasi-immunity is especially remarkable considering that, as of 2011, over half of all revenues came in the form of contributions. In fact, between 2008 and 2009, contributions actually increased.

As a whole, there has not been significant growth in this category since 2001, when revenue stagnated after 10 years of accelerating growth. This should serve as an important case study for organizations in other categories currently experiencing a rapid expansion of revenues in that it demonstrates that as categories become more saturated, growth rates consistently above that of GDP are unlikely to continue. Additionally, even as revenues have remained flat, Panel 6 shows that the number of organizations continued to increase steadily before tapering off in the most recent years. As a result, per-organization revenue has declined.

This is not to say that there are no longer opportunities for growth in this category, particularly in light of the strong demand for human services. The data here do suggest, however, that there may be a finite capacity to fund these organizations.

Individual Profile: **PUBLIC AND SOCIETAL BENEFIT**

NTEE Codes:
R, T, U, V, W

1

Key Figures

Number of Organizations (2011):	243
Total Revenue (2011)	
Overall	\$213,299,000
Per Organization	\$877,774
Annual Growth in Revenue (1989-2011)	
Overall	+2%
Per Organization	-4%
Total Contributions (2011)	
Overall	\$133,384,846
Per Organization	\$548,909
Annual Growth in Contributions (1989-2011)	
Overall	+2%
Per Organization	-4%

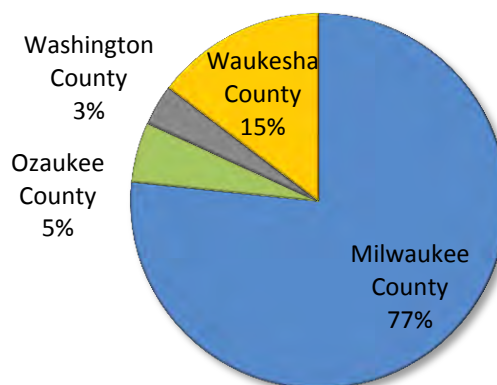
2

Just to name a few...

Association for the Rights of Citizens with Handicaps Inc.
Citizen Action of Wisconsin Education Fund Inc.
Donors Forum of Wisconsin Inc.
Milwaukee Community Service Corps Inc.
Milwaukee Water Council Inc.
Public Policy Forum Inc.
Schools that Can Milwaukee Inc.
Wisconsin Council on Economic Education Inc.

3

Where are they located? (2011)

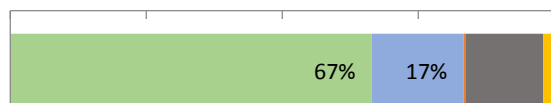


4

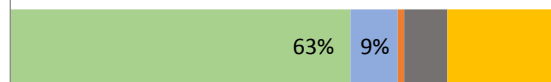
Revenue Shares

0% 25% 50% 75% 100%

1989



2011



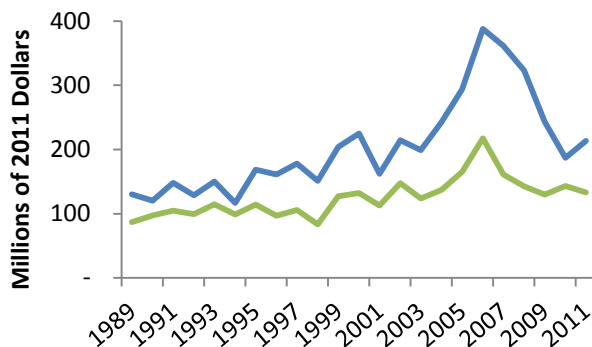
■ Contributions, Gifts, & Grants
■ Program Services
■ Net Special Events
■ Net Investment Income
■ Dues, Sales, and Other Income

PUBLIC BENEFIT FACT: The Public Policy Forum was established over 100 years ago and is supported by 250+ business, government, and civic organizations.

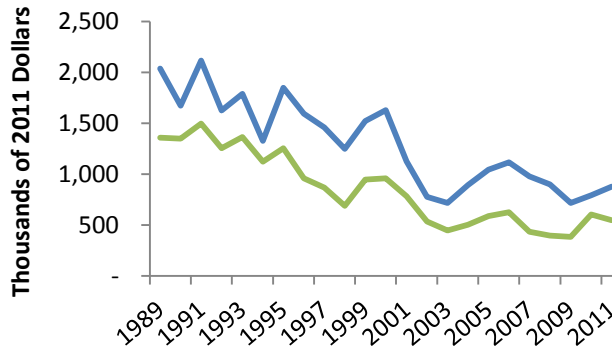
5

Revenues and Contributions

All Public and Societal Benefit Organizations



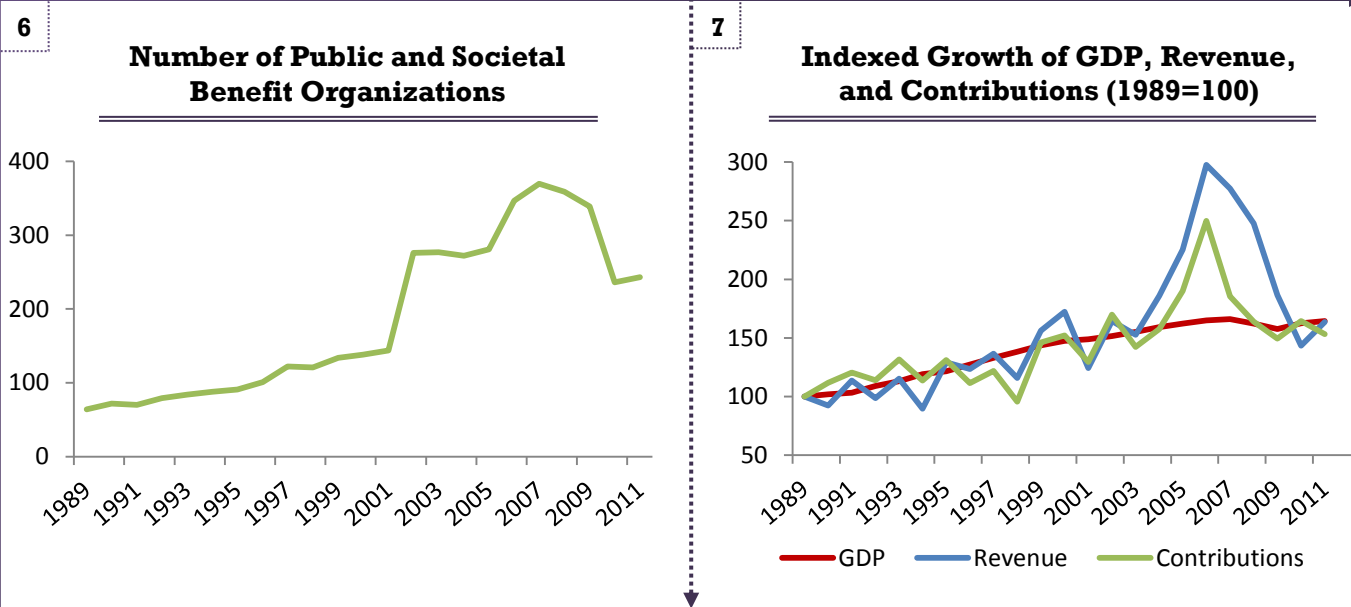
Per Public and Societal Benefit Organization



— Total Revenue — Contributions, Gifts, & Grants



Individual Profile: Public and Societal Benefit (Continued)



Summary

Public and Societal Benefit organizations includes those public charities involved in civil rights, social action and advocacy; philanthropy and voluntarism; science and technology; and social science activities. The Public Policy Forum belongs to this category.

Given the public nature of the services these organizations provide, the majority of revenue stems from contributions. The chart in Panel 4 shows that contributions' share of revenue has remained fairly stable from 1989 to 2011. Membership dues and sales have become a more prevalent source of revenue over the same timeframe.

In terms of revenue, this category has grown on average by 2.3% annually, with contributions growing at 2% per year. Panel 5 shows the development of revenue and contributions. There is a strong spike beginning in 2003 and ending in 2009. Much of this can be explained by an increase in the subcategory of "Named Trusts" of 90 organizations in 2002 and a subsequent decrease of 89 organizations in 2009. This somewhat inexplicable bubble also is visible in Panel 6. However, while eliminating these types of organizations from our sample somewhat dampens the spike in revenue, it does not completely eliminate it. Importantly, figures for revenue and contributions returned to levels consistent with their long-run trends after the spike. This suggests that the events occurring between 2003 and 2009 did not fundamentally change the nature of this category and likely did not impact organizations outside of the specific subcategories responsible for the shift.

Although both revenues and contributions display more volatility than GDP, both measures have kept pace with the rate of economic growth, as seen in Panel 7. However, as the number of organizations in this category has continued to grow faster than revenues, the average revenue per organization has decreased rapidly.

Individual Profile: RELIGION-RELATED

NTEE
Code: X

1

Key Figures

Number of Organizations (2011):	141
Total Revenue (2011)	
Overall	\$39,520,021
Per Organization	\$280,284
Annual Growth in Revenue (1989-2011)	
Overall	-2%
Per Organization	-8%
Total Contributions (2011)	
Overall	\$25,796,833
Per Organization	\$182,140
Annual Growth in Contributions (1989-2011)	
Overall	+5%
Per Organization	-1%

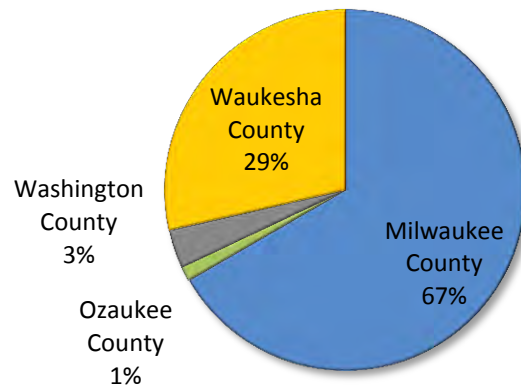
2

Just to name a few...

Abundant Grace Christian Worship Center
Buddha Haksa Corp.
Christ the King Development Corp.
Milwaukee Muslim Women's Coalition Inc.
Sikh Temple of Wisconsin Inc.
Time of Grace Ministry
VCY America Inc. (Voice of Christian Youth)
Volunteer Missionary Movement
Excluded: Religion-Related NEC (X99)

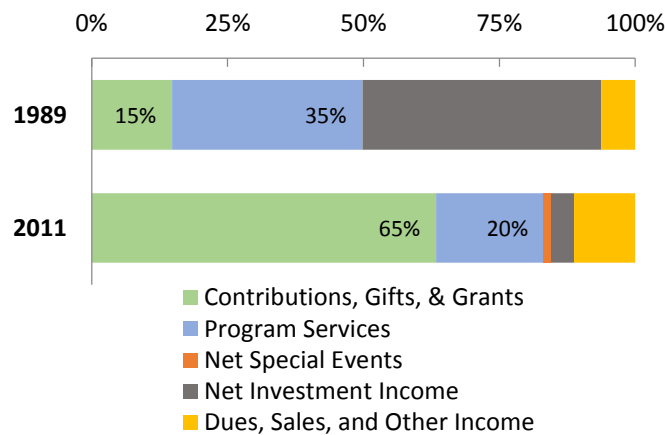
3

Where are they located? (2011)



4

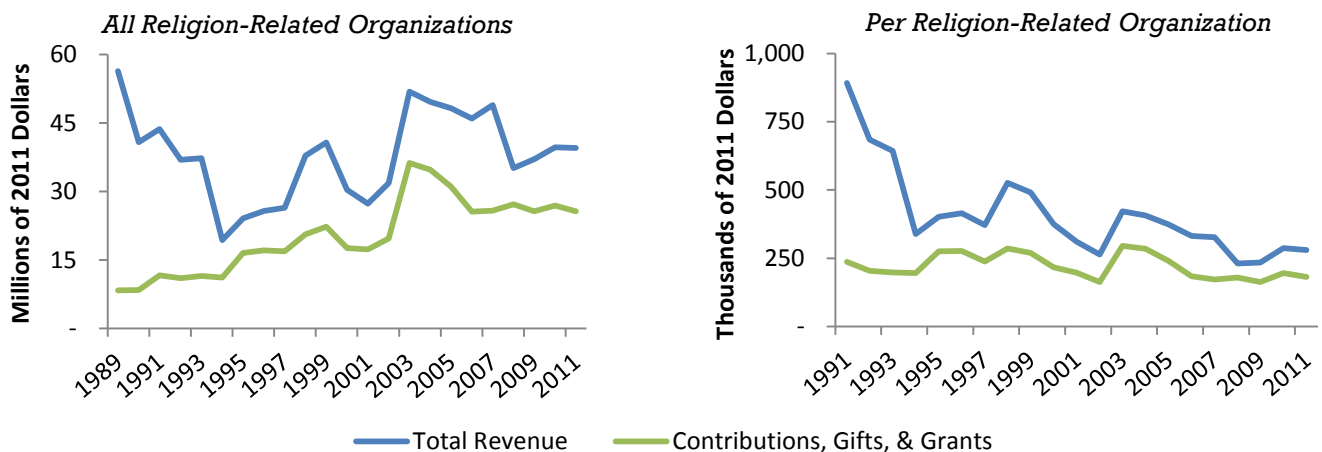
Revenue Shares



RELIGION FACT: As of 2012, Greater Milwaukee was home to 874 religious congregations, approximately 17% of all congregations in Wisconsin.

5

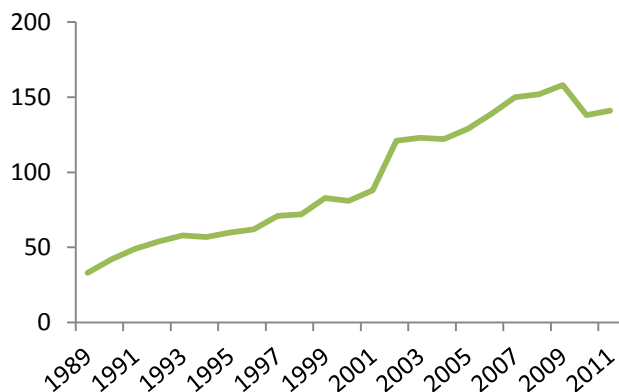
Revenues and Contributions



Individual Profile: Religion-Related (Continued)

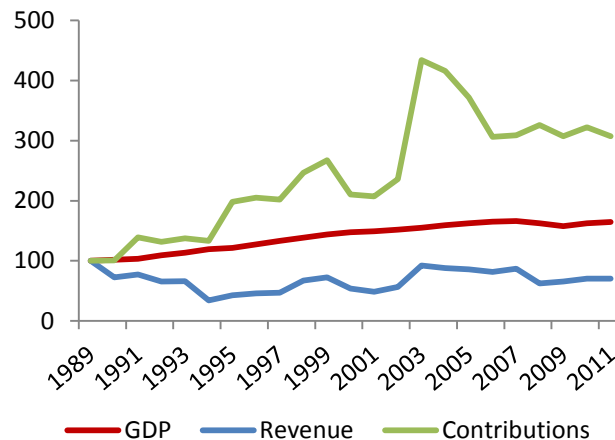
6

Number of Religion-Related Organizations



7

Indexed Growth of GDP, Revenue, and Contributions (1989=100)



Summary

It is important to note that the figures above do not include the vast majority of churches, which are not required to file an information return with the IRS detailing their revenue and financial activity. Instead, this category captures trends in religion-related organizations that are not classified as churches. We also exclude NTEE category X99 (Religion-Related NEC), as it is dominated by providers of healthcare services, such as assisted living centers and hospice care.

The most recently available data indicate that religion-related organizations rely heavily on contributions as a source of revenue. Panel 5 shows that contributions, and their share in total revenue, have historically been volatile. Revenue remains below its 1989 level when adjusted for inflation, but it has trended upwards since its lowest point in 1994. However, that growth has been erratic. Despite this bleak overall revenue performance, contributions have grown over the period of our analysis. Nevertheless, since settling at \$26 million in 2006 after a drop from their peak value, contributions have been flat.

As the number of religion-related organizations continues to grow, per-organization revenues have dropped significantly, as seen in Panel 5. Contributions per organization fell at the modest rate of 1% per year between 1989 and 2011.

Volatility and decreasing revenues pose a major threat to religion-related organizations. Predicting revenue is difficult to do with any degree of certainty. As the average organization in this category becomes smaller, the sustainability of existing programs and services provided by these organizations may be challenged. While religiously motivated, these organizations' programs provide a wide variety of important community services ranging from youth education to media broadcasting services. Thus, it may be worthwhile in the future to take inventory of the major programs administered by religion-related organizations and determine which services and populations served may be most at risk.

Individual Profile: YOUTH DEVELOPMENT

NTEE
Code: O

1

Key Figures

Number of Organizations (2011):	63
Total Revenue (2011)	
Overall	\$106,267,421
Per Organization	\$1,686,784
Annual Growth in Revenue (1989-2011)	
Overall	+9%
Per Organization	0%
Total Contributions (2011)	
Overall	\$82,813,988
Per Organization	\$1,314,508
Annual Growth in Contributions (1989-2011)	
Overall	+7%
Per Organization	+2%

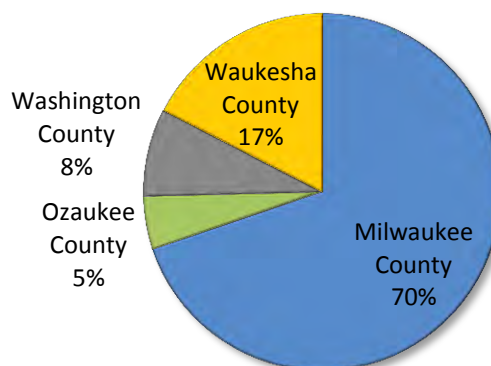
2

Just to name a few...

Big Brothers and Big Sisters of Metropolitan Milwaukee
Boy Scouts of America 651 Potawatomi Area Council
Boys & Girls Clubs of Greater Milwaukee Inc.
Children's Service Society of Wisconsin
Jewish Beginnings Lubavitch Preschool Inc.
Milwaukee Urban Soccer Collaborative Inc.
Pearls for Teen Girls Inc.
Urban Underground Inc.

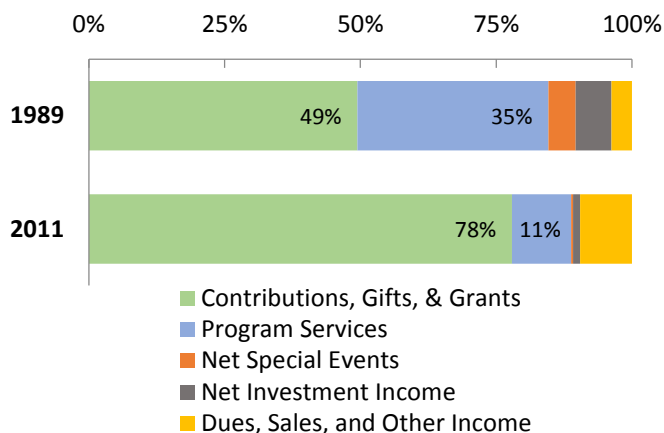
3

Where are they located? (2011)



4

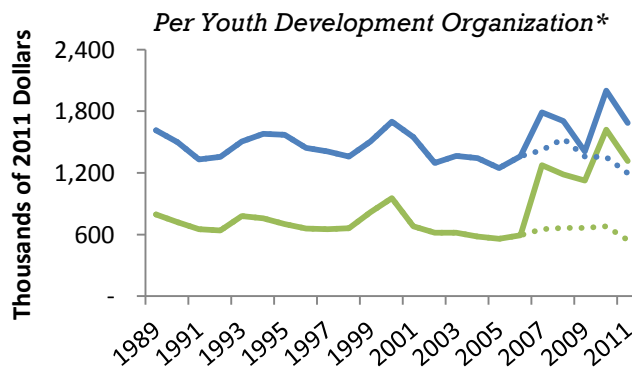
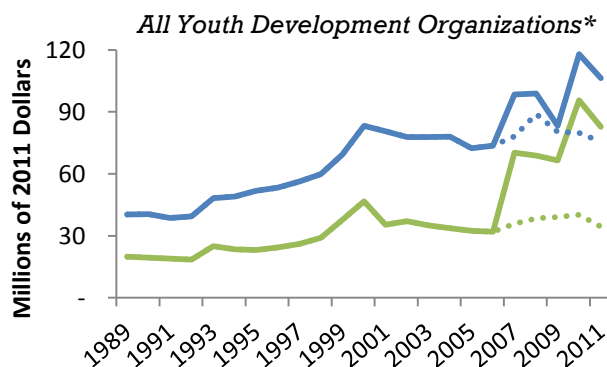
Revenue Shares



YOUTH FACT: The Boys & Girls Clubs of Greater Milwaukee operates 32 afterschool programs, with 26 school-based programs and 6 standalone clubs.

5

Revenues and Contributions

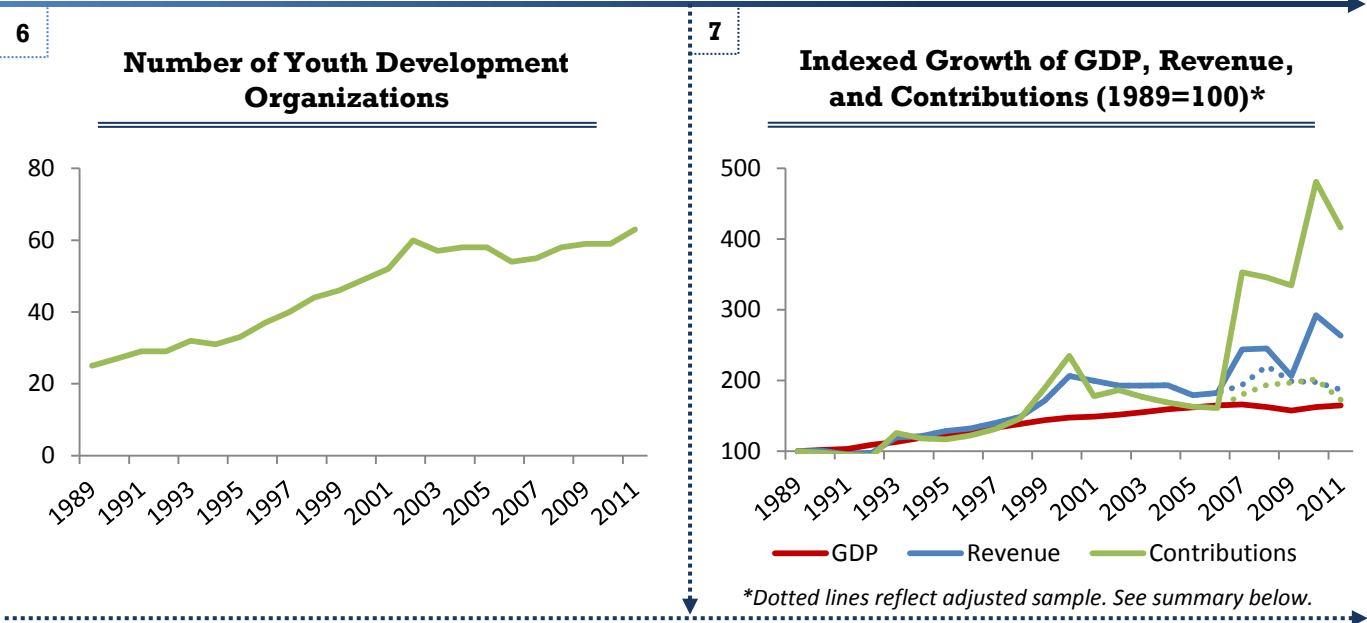


— Total Revenue — Contributions, Gifts, & Grants

*Dotted lines reflect an alternate sample. See summary below.



Individual Profile: Youth Development (Continued)



Summary

With only 63 organizations in this category, the figures above are especially sensitive to large movements in any subcategory or in any single organization. Panels 5 and 7 show a sharp jump in category-wide contributions in 2007. This is largely due to a combined \$30 million increase in contributions to the Boys & Girls Clubs of Greater Milwaukee and to the Children's Service Society of Wisconsin in that year. When the subcategories to which those two organizations belong are held constant at their 2006 levels, a very different picture emerges. This is depicted in Panels 5 and 7 with the corresponding dotted lines.

The only growth in contributions in this category since 2000 comes from the extraordinary gifts discussed above. If those are excluded, then we see that this category's revenue has grown at an annual rate of 3% since 1989, only slightly outpacing GDP. Moreover, as the number of organizations has increased steadily, per-organization revenues and contributions have declined. While this implies that the average organization is getting smaller and must make due with less, the growing number of organizations in this category suggests a greater amount of diversity and a wider array of programs—even if the breadth of those programs is getting smaller.

These trends should not be interpreted to mean that this category is fully saturated or that the community's capacity to support these programs has been reached. The recent increase in contributions to the Boys & Girls Clubs and Children's Service Society has been sustained since 2007. This demonstrates that there is still work to be done in this area and a willingness to fund it. What remains to be seen is whether other organizations will find ways to participate in this growth.

APPENDIX

Explanation of Our Empirical Model of Charitable Contributions

We draw on past empirical studies to establish an econometric model that explains charitable giving in the four counties that make up the Milwaukee MSA in terms of economic factors. Consistent with past empirical work, we include lagged charitable contributions, a measure of income, equity performance, and taxes as explanatory variables.²² A dummy variable for recessions is also incorporated into the model.²³ Accordingly, the general econometric specification is as follows:

$$c_{i,t} = \beta_0 + \beta_1 c_{i,t-1} + \beta_2 S\&P_t + \beta_3 GDP_t + \beta_4 X_t + \beta_5 PTAX_t + \beta_6 RECESSION_t + \varepsilon_{i,t}$$

where

$c_{i,t}$ is real (inflation-adjusted) contributions, gifts, and grants reported by all public charities in county i for period t ,

$c_{i,t-1}$ is real contributions, gifts, and grants reported by all public charities in county i for period $t - 1$,

$S\&P_t$ is the real value of the S&P 500 stock index in period t ,

GDP_t is real gross domestic product in Wisconsin in period t ,

X_t is a vector of effective income tax rates at the state and federal level in period t ,

$PTAX_t$ is an index of property tax rates in the MSA in period t ,

$RECESSION_t$ is a dummy variable indicating whether or not the national economy was in recession for at least two quarters of the year (1 for yes, 0 for no) in period t , and

$\varepsilon_{i,t}$ is a white noise error term for county i and period t .

Incorporating lagged charitable contributions allows us to capture the effect of persistent giving caused by non-economic factors. Such factors are expected to be significant determinants for whether and how much individuals give, but they are simply too numerous to include explicitly in a model. Moreover, for society as a whole, these factors move only very slowly. For example, educational attainment and marriage status are effectively stable year-over-year at the societal level.

We include both wealth and income effects with the S&P 500 index and GDP, respectively. This is fundamentally motivated by the permanent income hypothesis and implies that while realized income and consumption patterns drive charitable contributions, giving behavior also may be influenced by changes in wealth that are not reflected in cash flows. It is worth noting that other studies include lagged income as a determinant in their models.²⁴ According to those authors, this accounts for the fact that the full effect of changes in income may not be manifested in a single year. However, the “stickiness” of charitable giving (i.e. the lagged responsiveness of giving to changes in income) is expected to be captured in the dynamic nature of the model through the inclusion of the previous year’s contributions. We therefore include only contemporaneous income.

²² Deb, Partha, Mark Wilhelm, Patrick Rooney, and Melissa Brown. (2003). “Estimating Charitable deductions in *Giving USA*.” *Nonprofit and Voluntary Sector Quarterly*, Vol. 32(4), pp. 548-567.

²³ Deb, Partha, Melissa Brown, Leslie Lenkowsky, and John Marron. (2011). “Impact of The Obama Administration’s Proposed Tax Policy Changes on Itemized Charitable Giving.” *The Center on Philanthropy at Indiana University*.

²⁴ Deb, Partha, Mark Wilhelm, Patrick Rooney, and Melissa Brown. (2003).

The vector X_t includes both federal and state income taxes, and is a proxy for the tax price of giving.²⁵ We make the assumption that individuals are indifferent to income taxes collected by the state government and the federal government, as the effect on after-tax income is the same.

The property tax variable $PTAX_t$ is an average of MSA property tax rates weighted by income and population. Using a single property tax variable for the entire MSA is preferred to using individual property tax rates for the locality of the nonprofit because giving is assumed to be frictionless across county lines. Moreover, the model would suffer from severe multicollinearity if the individual property tax rates were included as discrete variables. We separate property out from the other tax variables not only because it is worthwhile to examine a local policy with greater clarity, but also because the means of collecting property taxes and their uses are markedly different from income taxes. So, it is not appropriate to assume that the effect of property tax and income taxes would be similar.

Recessions alter individuals' confidence in the economy and, as a result, their consumption patterns. By including recessions in addition to income and wealth variables, we can separate out the effect of negative economic growth from changes in income. This is worthwhile because not all individuals in an economy experience a decline in income or wealth during a recession. Moreover, recessions typically increase the demand for services provided by nonprofit organizations and therefore the need for contributions. We establish no expectation for how this variable will effect contributions. On the one hand, recessions shake confidence and security and so, as individuals brace for the potential negative consequences of a recession, they may reduce discretionary spending preemptively. In this case, the coefficient on $RECESSION_t$ would be negative. On the other hand, increased demand for services provided by nonprofit organizations and hardship by others might induce greater generosity, holding wealth, income, and other determinants constant.²⁶ Under this scenario, the coefficient would be positive.

Data Selection and Definitions

Data on contributions and nonprofit revenue sources are provided by NCCS, which reports aggregated data from individual nonprofit information returns (IRS Form 990). The figures used to undertake regression analysis included data from 943 MSA public charities in 1991 and 2333 public charities in 2011. Revenue figures are only available for those public charities which are required to file a Form 990 or Form 990-EZ. Not every nonprofit organization is required to file. Most prevalently, churches and organizations with less than \$50,000 in revenue (\$25,000 prior to 2010) are not required to file an IRS Form 990.

It is important to point out that there are multiple sources for data on charitable giving, both at the aggregate and household level.²⁷ We select NCCS as our source for charitable giving data because it focuses on actual nonprofit revenue by source and is available at the county level. *Giving USA*, possibly the most well-known publication estimating household charitable contributions, does not publish

²⁵ To the individual donor, the after-tax "price" of a contribution is given by $(1 - r)c$, where r is the effective income tax rate and c is the nominal amount of the contribution.

²⁶ Randolph, 1995.

²⁷ For a particularly interesting discussion of various data sources for charitable giving, see: "Charitable Giving: How Much, by Whom, to What, and How?" in *The Non-Profit Sector: A Research Handbook* by John Havens, Mary O'Herlihy, and Paul Schervish. (2006).

regional figures, and their estimates are subject to some unavoidable methodological shortcomings.²⁸ Moreover, NCCS data are classifiable by more categories than reported in *Giving USA*, allowing us to look at smaller subcategories within the nonprofit sector. The downside of using NCCS data is that they exclude organizations not filing an IRS Form 990. The data are available back to 1989, which enables us to examine giving over the longest time period of any potential data source providing regional data on giving across multiple categories.

The alternative approach, using household-level data, such as the figures reported in the Panel Study of Income Dynamics (PSID), requires that survey participants recall how much they gave to charitable organizations across multiple categories. There is some concern that individuals may overstate their charitable giving, but it is more likely that they not be able to recall precisely how much they gave. Moreover, once the sample is limited even to a specific state, the number of respondents is simply too small to conduct a robust analysis. Using IRS data is another option we considered, and those data are available for specific counties and zip codes. However, only itemized deductions are reported, which excludes a large amount of charitable contributions and precludes any analysis of different categories of organizations.

In our analysis of revenue trends by category, we excluded a small number of subcategories, such as hospitals and universities. However, in our regression analysis of charitable contributions, we do not exclude any organizations from the sample. We do not aver that contributions to hospitals and universities are any less relevant than those contributions given to smaller organizations. So, it would not be appropriate to limit our sample here.

In estimating the model, we use total charitable contributions for each county, effectively combining contributions across all NTEE categories. The reason for this is multifold. First, the number of organizations included in each category would influence the robustness of the parameter estimates. For categories with few organizations, such as Youth Development, a major disturbance in any one organization would produce results that may be biased or subject to unacceptably high levels of error. Second, there is the practical limitation of the time needed to complete and reasonably report on such analyses and their limitations. Finally, even within categories, there is a high degree of heterogeneity between organizations. By using total charitable contributions across all categories, our estimates and averages become much tighter and the data lend themselves better to regression analysis.

Definitions for variables and data series appearing in the empirical model and elsewhere in the report are provided in **Table 1** below.

²⁸ Smith, Hayden. (1993). "Some thoughts on the validity of estimates of charitable giving." *International Journal of Voluntary and Nonprofit Organizations*, Vol. 4(2), pp. 251-261.

Table 1: Data Definitions and Sources

<i>Variable</i>	<i>Definition</i>	<i>Source</i>
Average Share of Household Income	$\frac{\text{Total Household Income}_i}{\text{Total MSA Household Income}}$, averaged 2005 to 2012	US Census Bureau
Consumer Price Index	Inflation realized by urban consumers (CPI-U)	Bureau of Labor Statistics
Contributions	Contributions, gifts, and grants received by public charities and reported on IRS filings.	NCCS
Equalized Rate	The effective property tax rate per \$1,000 of property value in the most populous city in the county. Those cities are the City of Milwaukee, City of Mequon, City of West Bend, and City of Waukesha.	Milwaukee County Assessor's Office, Waukesha County Treasurer's Office, Ozaukee County Treasurer's Office*
Federal Income Tax Rate	$\frac{\text{Federal Personal Income Tax Revenue}}{\text{National GDP}}$	Bureau of Economic Analysis
Number of Organizations	Total number of public charities in MSA	NCCS
Price Deflators	Ratio of nominal to real prices, which allows for an inflation-adjustment to revenue and contributions	Bureau of Economic Analysis
Property Tax Index	$\sum_{i=1}^4 \text{Average Share of Household Income}_i \cdot \text{Equalized Rate}_i$	Authors' calculations
Recession	Negative GDP growth for two or more consecutive quarters	National Bureau of Economic Research
Revenue	Total revenue reported by public charities	NCCS
S&P 500 Index	Value of the S&P 500	S&P Dow Jones Indices, LLC
Wisconsin GDP	Gross Domestic Product of WI	Bureau of Economic Analysis
Wisconsin Income Tax	$\frac{\text{Wisconsin Personal Income Tax Revenue}}{\text{Wisconsin GDP}}$	US Census Bureau

**The Washington County Treasurer was only able to provide 10 years of data on mill rates. For the years provided, we found that the rates for West Bend, the principal city in Washington County, were highly correlated with the rates in Waukesha, the principal city in Waukesha County. We leveraged that high correlation and used Waukesha property tax rates as a proxy for West Bend to overcome the lack of available data.*

Estimation Results

Evidence of unit root was identified in all time-series variables by the Im, Peseran and Shin test or by the augmented Dickey-Fuller test, where applicable. Accordingly, we estimate the model in a double-log specification using the first difference of variables, except $RECESSION_t$, to correct for unit root and reduce the likelihood of a spurious regression result.



Our unadjusted sample period runs from 1991 to 2011, which is the longest interval for which a balanced panel can be constructed using publicly available data. We eliminate from the sample the year 2005, because of an apparent outlier in the data for Ozaukee County whose accuracy could not be verified.²⁹

We estimate the model using panel least squares. Parameter estimates are given in the table below:

Table 2: Panel Data Estimation Results			
Dependent Variable: $\Delta \ln(c_{i,t})$			
Variable	Coefficient	Standard Error	Probability
β_0 (Constant)	0.0057	0.0151	0.7056*
$\Delta \ln(c_{i,t-1})$	-0.4019	0.1561	0.0061
$\Delta \ln(S\&P_t)$	0.5053	0.1104	0.0000
$\Delta \ln(GDP_t)$	0.9777	0.6711	0.0748
$\Delta \ln(X_t)$	-0.3783	0.1247	0.0017
$\Delta \ln(PTAX_t)$	0.0347	0.2094	0.4344
$RECESSION_t$	0.1167	0.0271	0.0001*
$n = 80$, Adjusted $R^2 = 0.23$			
*Reflects two tailed t-test. All other p-values correspond to one-tailed tests.			

The estimate of the constant term, small in magnitude and less than zero, is not statistically significant. Since the dependent variable can be interpreted as the growth rate of charitable contributions between periods $t - 1$ and t , this result suggests that there is not a constant, unexplainable growth rate in the level of charitable giving. Instead, growth in charitable contributions can be largely explained by other determinants in the model.

The coefficient of lagged charitable contributions is highly significant, and it is also negative in first-differenced form. This means, first and foremost, that Greater Milwaukee's giving patterns are not solely dictated by the prevailing economic environment. Instead, giving is largely influenced by the events of the previous year. The negative coefficient is expected, yet still informative. If the growth rate of contributions in the previous year were positive (negative), then, holding all else constant, the growth rate in this year would be expected to be negative (positive), but by approximately half the magnitude of the previous year's growth. This is to say that the effect of shocks diminishes with each passing period.³⁰

²⁹ NCCS reported charitable contributions of \$4,218,776 to nonprofit organization in Ozaukee County for the year 2004. In 2005, the reported figure was \$41,962,119, and then fell to \$5,331,437 in 2006. We identified that nearly \$36.5 million of 2005's reported contributions went to human service organizations (NTEE Code: P20), but no organizations of this category in Ozaukee County reported receiving such a large contribution on their IRS forms 990.

³⁰ A positive coefficient here would imply an ever-accelerating growth rate in charitable contributions. Such explosive growth would be highly unrealistic.

The coefficient on the real S&P 500 index, our measure of a wealth effect, is statistically significant and positive, which is consistent with expectations. The parameter estimate suggests that a 1% increase in the real value of the S&P 500 index is associated with a 0.51% increase in charitable contributions. This is evidence to suggest that changes in wealth, even if they do not necessarily translate into immediate cash flows, have a contemporaneous impact on the level of giving to nonprofits.

Wisconsin's GDP is included as a measure of income and general economic health. Not surprisingly, economic growth has a positive impact on the level of charitable contributions, significant at the 10% level. In fact, of all the determinants in the model, charitable contributions are most sensitive to changes in GDP. A 1% increase in GDP corresponds to a 0.98% increase in the level of charitable contributions. This effectively unit-elastic relationship suggests that contributions as a share of real income are fairly stable, holding other factors constant.

Consistent with expectations, income tax rates, given by the vector X_t , are found to have a significant and deleterious effect on charitable giving. If income tax rates rise generally by 1%, one would expect charitable contributions to fall by 0.37%, holding all else constant.³¹ The reason for this is not especially elusive. Given the fact that charitable contributions are sensitive to gross income (GDP), anything that subtracts from income (e.g. taxes) will generally decrease the level of charitable giving.

Property tax rates were found not to be statistically significant ($p=0.43$). There are a few potential explanations for this result. First is that the property tax index used may not be sufficiently precise or reflective of donors' tax liability. For example, relatively fewer households in Milwaukee County incur explicit property taxes, given the higher rates of renting. A second explanation is that organizations that received a substantial amount of contributions from outside the MSA would not be particularly sensitive to changes in local property tax rates. Third, households may not respond the same way to property taxes as they do to income taxes. Since property taxes may be "invisible" in that they are simply paid as part of the mortgage, households are not as sensitive to them.

Interestingly, when we hold all other factors constant, we find that recessions have a beneficial impact on the level of contributions. The mere fact that the economy enters recession is estimated to increase the growth rate of charitable contributions by 12.4% for that year.³² This is to say that if in a non-recessionary environment charitable contributions were to grow by 5%, then in a recessionary environment, the growth rate would be 5.62%, holding all other factors constant. While it is a seemingly small increase, it would amount to an added \$10.5 million in charitable contributions for 2011. However, a recession, by definition, implies that GDP has decreased. So, the result does not suggest that giving increases in a recession. It only suggests that the negative effect of a drop in economic income is somewhat dampened. Generally speaking, it is overwhelmed by the effect of a drop in GDP.

One reason often cited for the positive effect of a recession on the growth rate of charitable contributions is the idea that donors perceive a greater need for their contributions in a time of recession. For example, a household that expects to be relatively immune from the recession (i.e. no

³¹ This reflects a relative change (e.g. an increase from 10% to 10.1% and not from 10% to 11%).

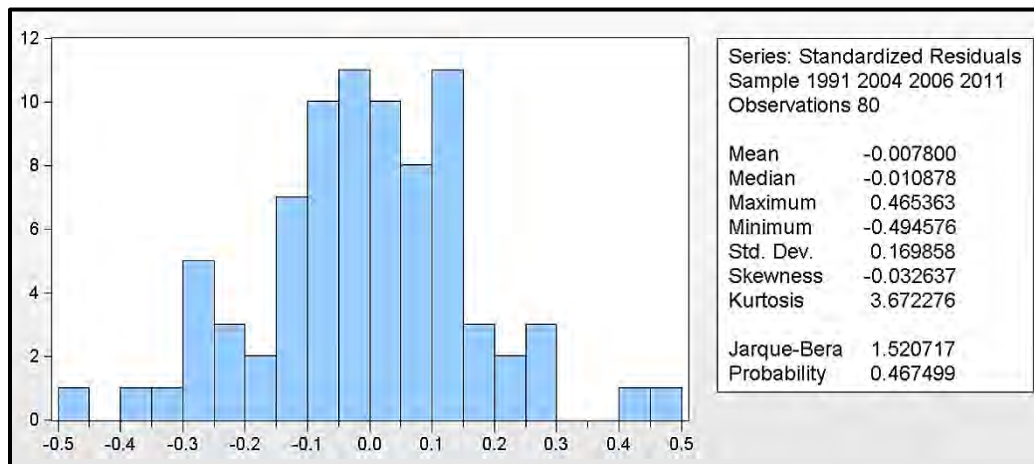
³² Again, this is a relative change.

The interpretation of the coefficient on the recession dummy variable requires a simple transformation, given the mechanics of the logarithmic model: $e^{0.117} - 1 = 0.124 = 12.4\%$.

change in income) may decide to increase or maintain their giving because they perceive that more individuals are struggling to make ends meet.

Residual Tests

A Jarque-Bera test of normality indicates that we cannot reject the null hypothesis of normally distributed residuals at the 20% level. A histogram of residuals and summary statistics is provided below.



We use White's test to identify any potential heteroscedasticity. We regress the squared residuals from parameterized model on a constant term, the original determinants, and the squared determinants. Given the size of the sample, we do not include cross terms. The test statistic is $nR^2 \sim \chi^2(k - 1)$, where n is the number of time periods and k is the number of slope parameters in the auxiliary regression. The null hypothesis supposes no heteroscedasticity.

The auxiliary regression for White's test produces an R^2 value of 0.65, corresponding to a test statistic of 12.95. At the 10% level with 10 degrees of freedom, the critical value is 15.99. Since the test statistic is lower than the critical value, we do not reject the null hypothesis and thus conclude that the estimated model does not suffer from heteroscedasticity.

The Lagrange multiplier test is used to test for the possibility of autocorrelation. We regress the residuals generated from estimating the model on the right-hand side variables and on one lag of the residuals. The test statistic is $(n - 1)R^2 \sim \chi^2$ with one degree of freedom. The R^2 value for the auxiliary regression is 0.08, yielding test statistic of 1.48. Since this is below the 10% critical value of 2.71, we do not reject the null hypothesis of no first-order autocorrelation.

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Glossary of Acronyms and Terminology

501(c)(3) organization: A tax-exempt organization registered with the IRS. The organization must be operated for public benefit and not for private interest. Moreover, the organization is forbidden from engaging in campaign activity on behalf of a political candidate or engaging substantially in efforts to influence legislation. 501(c)(3) organizations are classified as public charities or private foundations.

IRS Form 990 or Form 990-EZ: The annual tax filing required for most nonprofits with revenues in excess of \$50,000 (\$25,000 prior to 2010). Most notably, churches are not required to file a Form 990.

MSA: Metropolitan Statistical Area, which includes the counties of Milwaukee, Ozaukee, Washington, and Waukesha. The Milwaukee-Waukesha-West Allis MSA is synonymous with “Greater Milwaukee” and “metro Milwaukee.” The composition of an MSA is defined by the US Census Bureau and based on determined levels of economic integration across county lines.

NCCS: National Center for Charitable Statistics

NEC: Not Elsewhere Classified

Nonprofit or Nonprofit Organization: For this report, “nonprofit organization” refers to any 501(c)(3) public charity registered with the IRS and filing an IRS Form 990.

NTEE: National Taxonomy of Exempt Entities

Permanent Income Hypothesis: This theory asserts that consumptions and spending patterns are determined not only by current income, but also expected future income. For example, college students are frequently willing to forgo full-time employment for a few years and pay rising tuition costs on the assumption that they will earn more money in the future.

Public Charity: One of two classes of 501(c)(3) organizations, with the other class being private foundations. Public charities are those organizations which have an active fundraising operation and receive contributions from many sources. For the purposes of this report, public charity is synonymous with “nonprofit organization.” Additional information is available at: <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Public-Charities>.

Private Foundation: One of two classes of 501(c)(3) organizations, with the other class being public charities. Private foundations typically have a “single, major source of funding” and engage primarily in providing grants to other charitable organizations or individuals. Additional information is available at <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Public-Charities>.

PSID or COPPS/PSID: Panel Study of Income Dynamics or Center on Philanthropy Panel Study/Panel Study of Income Dynamics. The study, started in 1968, is a longitudinal household survey of over 18,000 individuals and is directed by the faculty at the University of Michigan.

Sunsetting: The process a foundation goes through when planning to discontinue operations. Most often, sunseting is a planned process which takes place over multiple years.

