

Hawai'i Nonprofits 2001

A Study of the State's Silent Economic Partner

Established in 1916, the Hawai'i Community Foundation is a statewide, charitable services and grantmaking institution endowed with contributions from many donors. HCF also serves as a resource on philanthropy, and community issues and trends. Its mission is to help people make a difference by inspiring the spirit of giving and by investing in people and solutions to benefit every island community.



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Introduction

Hawai'i's nonprofit sector plays a critical role in our society and economy. Unlike the high profile government institutions and private businesses, however, its community-wide impact remains largely unknown to most of us.

In many ways, nonprofit organizations are an essential part of our community and are vital to Hawai'i's quality of life. They find companions for the elderly, they care for our toddlers, they feed the hungry, they nurture the sick, they preserve the environment, they educate our children, they provide us with our places of worship, and they provide "food for the soul" through the arts and cultural and recreational activities. Their presence allows businesses to attract and maintain talented workers and they are a key reason why people choose to visit and live in Hawai'i.

Nonprofits in our community are being called upon to meet an increasing number of needs at a time when charitable contributions have dropped from businesses struggling to make ends meet and the prospect looms of decreasing government assistance as state revenues decline. Now more than ever, the key to stabilizing and improving the health and welfare of our island home is through awareness of and support for the nonprofit sector.

In 1999, the Hawai'i Community Foundation introduced, *Hawai'i's Charitable Giving*, a benchmark study of giving and volunteerism in the state. In August 2001, the Foundation partnered with CompassPoint Nonprofit Services in a national study to profile the issues and challenges faced by Hawai'i's nonprofit leaders in, *Daring to Lead: Nonprofit Executive Directors and their Work Experience*. The great interest in these studies led the Foundation to initiate a third study, *Hawai'i Nonprofits 2001*.

Purpose

Hawai'i Nonprofits 2001 is the first effort of its kind that provides a comprehensive view of the state's nonprofit sector. Hawai'i Community Foundation commissioned this benchmark study to serve as a starting point for both public and private sectors to address the issues and challenges facing an industry that touches nearly every individual in the state.

The following facets of the nonprofit sector were investigated:

- How large is the nonprofit sector in Hawai'i?
- How many employees and volunteers support nonprofits?
- What is the sector's financial profile?
- What are the current challenges for nonprofits today?



FAST FACTS: Hawai'i Nonprofits with Revenues \$25,000+:

- Employ 7.4 percent of the non-agriculture workforce. In 2000, this part of the nonprofit sector employed approximately 41,000 full-time and part-time workers.
- Account for approximately \$1 billion in total wages, nearly 6% of the total wages for the state.
- Receive support from about 18,000 ongoing, long-term volunteers and 29,000 periodic volunteers.
- Are well established with 3/4 of agencies operating in Hawai'i for 10+ years.
- Generate about \$2 billion in revenues.
- Receive private contributions from individuals, corporations and foundations. These funding sources account for 19% of total revenues—higher than the national average of 10%.
- Are differentiated by one of three revenue source profiles. Those groups with fewer funding sources face greater risks on their total revenue than those who are diversified.
- Rate insufficient funding, cash flow, service capacity and effective use of planning and technology as their major challenges.
- Serve a broad range of needs:
 - Entire state: 44%
 - General population: 49%
 - Children: 59%
 - Adults: 36%
 - Businesses: 3%

Participants

The study examined nonprofits in eight categories that collectively represent the largest segments of the nonprofit sector:

- Culture and Arts
- Education
- Health
- Human Services¹
- Faith-based
- Environment
- Community Development²
- Other³

The study purposefully focused on organizations with revenues greater than \$25,000 and that are required to file IRS Federal Form 990. This group accounts for approximately 1,363 of the estimated 6,000 nonprofit organizations in Hawai'i, or about 23 percent. Based upon their budget size, it was also assumed that these organizations would have the greatest impact on the community as a whole.

Faith-based participants included those organizations that elected to file for 501(c)(3) status, but they do not account for a number of churches and religious organizations in Hawai'i that are not 501(c)(3) entities.

Methodology

GuideStar's⁴ listing of nonprofit organizations and the Hawai'i Community Foundation's database served as the sampling frame for this study. GuideStar's list included all organizations that file IRS Federal Form 990 plus other nonprofits that chose to be listed.

A sample of 2,000 nonprofit agencies, all 1,363 larger organizations and a random sample of the smaller organizations, was selected and a survey was mailed to each. The survey was designed to gather basic descriptive information on nonprofits, their service target groups, types of services delivered, revenues, expenditures, staff size and basic management and planning tasks.

A total of 288 surveys were completed. Of those, 215 reported revenues over \$25,000. For purposes of this report the results of the survey from organizations with revenues greater than \$25,000 were weighted back to the community of larger nonprofits based on the GuideStar list and distribution.

For clarification of terms, the breakouts of revenues and expenses are identical to the terms used in IRS Federal Form 990.

¹ Includes recreation and youth development.

² Includes economic development and public or social benefit.

³ Includes international service and other non-classified organizations listed in GuideStar with incomes of \$25,000 or greater.

⁴ The GuideStar Web site (www.guidestar.org) is produced by Philanthropic Research, Inc., a 501(c)(3) public charity.

How Large is the Nonprofit Sector in Hawai'i?

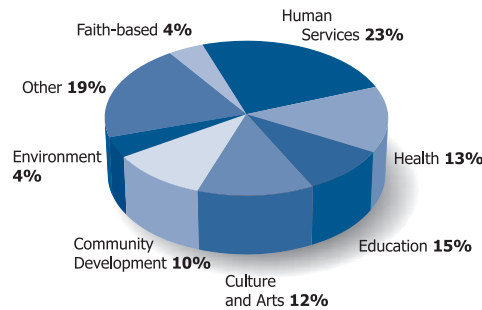
Hawai'i Nonprofits are Well Established.

About three-quarters of nonprofit agencies, with revenues greater than \$25,000, have been operating in Hawai'i for more than 10 years, while half of them have been in business for more than 20 years.

Nonprofits Service the Entire State and Cover a Broad Range of Needs.

Forty-four percent of Hawai'i nonprofits serve the state as a whole, 33 percent serve one or more counties and the remainder serve a smaller area. Forty-nine percent serve the general population, 59 percent serve children and 36 percent serve adults, while three percent serve businesses and eight percent serve other agencies⁵.

Types of Nonprofit Organizations in Hawai'i (Revenues greater than \$25,000)⁶



Human services and health are the largest segments serving Hawai'i at 36 percent represented.

How Many Employees and Volunteers Support Nonprofits?

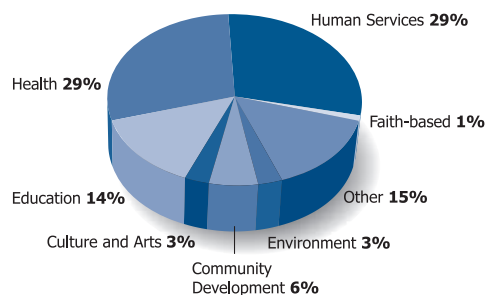
Employees

Hawai'i nonprofit agencies employ 7.4 percent of the state's non-agricultural⁷ workforce, which places the Nonprofit Industry fourth in employment size behind Services⁸, Government and Retail Trade.

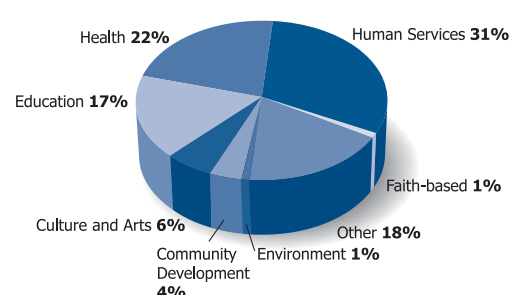
Nonprofit organizations employed approximately 41,000 people in the year 2000. Nearly 27,000 of those were full-time employees, 11,000 were part-time employees and 2,700 were temporary or contract personnel.

Paid Employees at Hawai'i Nonprofits

Full-Time Employees



Part-Time Employees



Health and human service agencies employ nearly 60 percent of the full-time employees in the industry. Human services also account for 31 percent of the part-time nonprofit workers, the leader in hiring part-time help.

⁵ Total adds up to more than 100 percent because of multiple populations served by one organization.

⁶ All charts in this summary show organizations with total revenues greater than \$25,000.

⁷ State of Hawai'i Department of Labor & Industrial Relations size of the non-agricultural workforce. In Dec. 2000, the State of Hawai'i reported 551,500 non-agricultural jobs.

⁸ State of Hawai'i Department of Labor & Industrial Relations "services" list includes hotels, health services/hospitals, business services, social services, educational services, and accounting/management services.

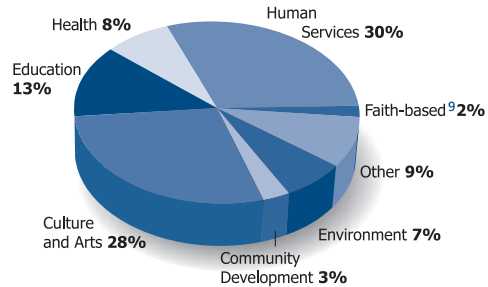


Volunteers

A total of 18,000 ongoing, long-term volunteers and 29,000 periodic volunteers support nonprofit organizations statewide.

Volunteers at Hawai'i Nonprofits

Nonprofit segments that did not have large numbers of paid employees relied more heavily on volunteers, particularly culture and arts organizations.

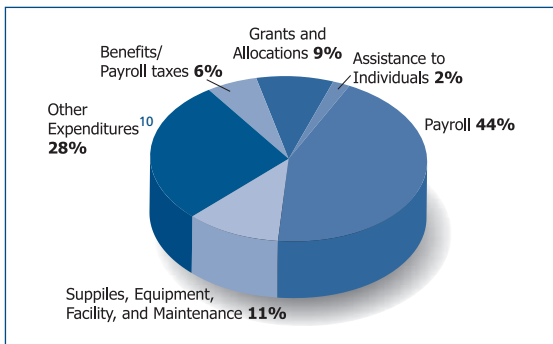


What is the Sector's Financial Profile?

Expenditures

Hawai'i nonprofits generate a major source of income for Hawai'i's people and businesses. Agencies account for approximately \$1 billion in total wages, including benefits, nearly six percent of the total wages for the state (\$16.9 billion in 2000).

Mix of Expenditures for Hawai'i Nonprofits

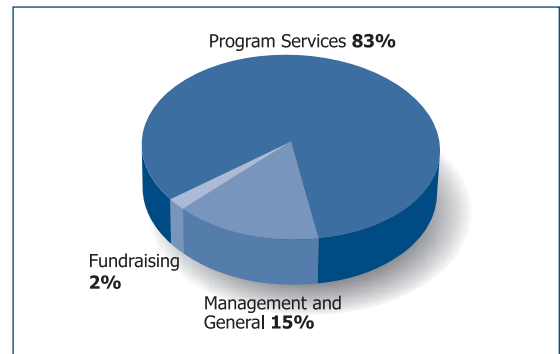


Wages account for the largest expenditure (44 percent) for Hawai'i nonprofits, which is consistent with the state's Service Industry.

A total of 11 percent of expenditures is provided directly to individuals and other organizations through direct assistance and grants and allocations.

Thirty-nine percent of expenditures are used to purchase products and services primarily within Hawai'i—only four percent of all expenditures are spent out-of-state.

Expenditures for Program Services¹¹, Management and Fundraising



More than 80 percent of Hawai'i nonprofit expenditures are directed towards program services¹². Fifteen percent went to management and general operations and two percent to fundraising.

⁹ It is likely that faith-based organizations rely heavily on volunteers, however, the designation between formal volunteer and member may be less clear. This factor will be explored further in future studies.

¹⁰ Other category includes: benefits paid to or for members, professional fundraising fees, accounting fees, legal fees, travel, conferences/conventions and meetings, interest/depreciation/depletion, etc.

¹¹ Program service expenditures include: payroll for employees engaged in client service, the supplies and equipment purchased for client services, other expenditures directly related to client service, grants, and direct transfer payments. Management includes: administrative payroll, supplies and facilities management not directly related to client service, and other expenditures independent of client service.

¹² Fundraising covers payroll, supplies and equipment, and other expenditures devoted to generating donations and grants at the agencies.

Program services are those activities that the organization was created to conduct and form the basis of the organization's current exemption from tax.

Revenue Sources

Total revenues in 2000 for nonprofit agencies are estimated at \$2 billion and account for two-thirds of the total revenues generated by Hawai'i nonprofits overall.

Program Service Revenues and Government Grants

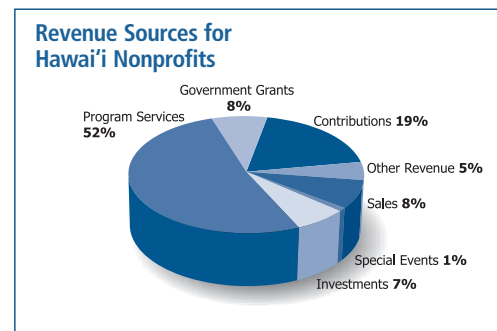
Federal, state and county governments are three sources for grants and program service revenues. Grants comprise about eight percent of all nonprofit revenues, and program service revenues make up over half of total revenues. Program service revenue comprises government purchase-of-service, contracts and other private contractual services, as well as fee-for-service activities.

Together, surveyed nonprofits receive most of their government-related revenues through earned income from program services. The state provides all of the government-related program service revenues for culture & arts and community development agencies, while it provides health and human service agencies with 75 percent. Environment agencies receive most of their government-related program service revenues from county government, with only three

percent from the state. County government also provides education agencies with three-fourths of their government-related program service revenue, with the rest from the state. Faith-based and other agencies report no government-related program service revenues at all.

Private Contributions

Contributions are the second main source of revenue for the sector. Hawai'i nonprofits surveyed receive more funding from contributions and less from government grants than national averages.¹³ Nearly 71 percent of Hawai'i nonprofits receive contributions from individuals, corporations and foundations. These sources account for 19 percent of total revenues, which is much higher than the national average of ten percent.

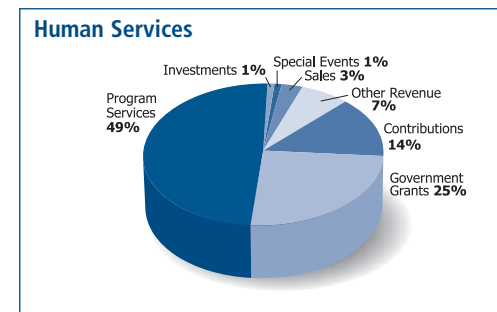
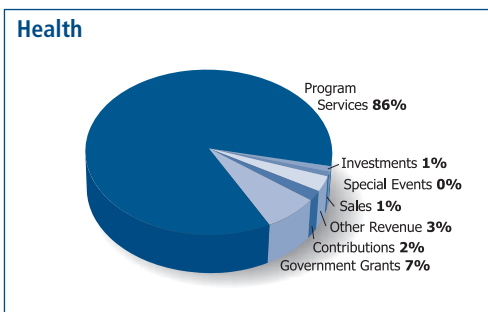


Revenue Source Profiles

Hawai'i nonprofits fit one of three revenue source profiles:

PROFILE 1: Public Sector Revenue Profile

Health and human service agencies rely heavily on the public sector for program service revenues and government grants for 74 to 93 percent of their total revenues.

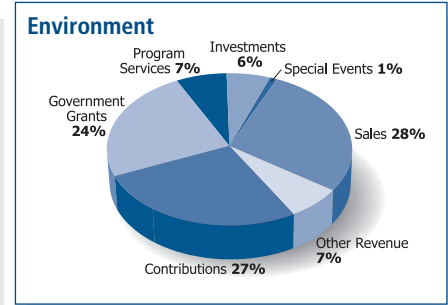
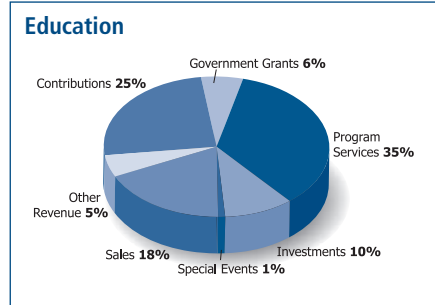
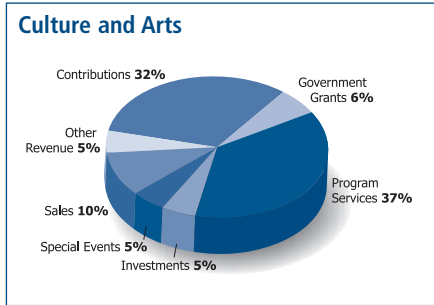


¹³ National averages from Maryland's Nonprofit Sector Executive Summary, Lester M. Salamon and Maryland Association of Nonprofit Organizations.



PROFILE 2: Multiple-Source Revenue Profile:

Although the largest portion of revenues for these groups is generated from two or three main sources, these organizations enjoy the important advantage of having a relatively balanced source of revenues. If revenues decrease for one of the sources, it is less likely to impact their total revenue because they have greater possibilities for increasing revenues from other sectors to make up the difference.



Culture and arts, and education are more alike because the majority of their revenue comes from either program services or contributions.

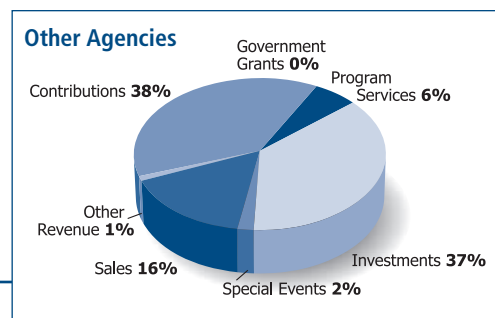
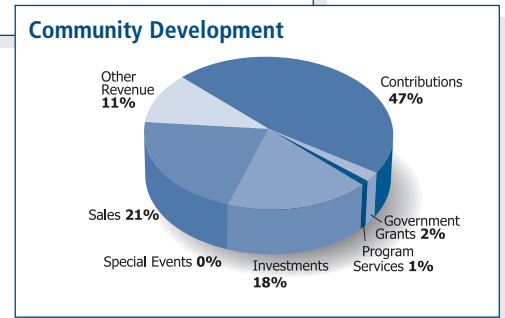
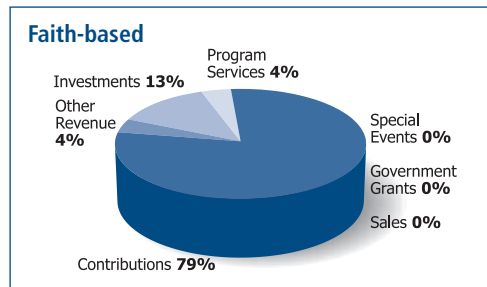
Environment agencies rely less on program services and the majority of their revenue sources are provided from contributions, government grants and sales.

PROFILE 3: Contribution-Based Revenue Profile

Faith-based organizations are the most reliant on contributions representing about 80 percent of their total revenue. Investments and a small amount of program services are the only other revenue sources reported for faith-based groups.

Nearly half of all revenue received by community development organizations comes from contributions. Other agencies receive 38 percent from contributions and a practically equal amount through investments.

The other category is more balanced than the previous two, however, its major dependency on contributions favors classifying it as contribution-based rather than the multiple-source profile.



What are the Current Challenges for Nonprofits Today?

Insufficient Funding and Cash Flow

- Culture and arts, education, health, environment, and other agencies rated insufficient funding as their major challenge. Human services, faith-based and community development rated insufficient funding as second.
- Human service agencies rate cash flow as their number one challenge. A main concern for these agencies may be the delay in receiving payment from the government for contract services provided.

At or Near Capacity

- Forty-four percent of surveyed nonprofit organizations believe that they currently have no excess capacity and are unable to serve more individuals.
- A total of 46 percent believe they could offer their services to only a few more people.
- Only six percent of surveyed organizations believe they could provide additional services, and these were primarily in the culture and arts, faith-based and human service areas.
- Twenty-nine percent of the organizations believe that there are a large number of people who need their services, but they cannot be helped due to the limited resources of the organization.
- Forty percent believe there are a few individuals who need their services but cannot receive them due to the limited resources of the organization.

Planning for the Future

- While 80 percent of the nonprofit agencies surveyed have some form of strategic plan, many continue to struggle in terms of measuring performance.
- Only 23 percent of the organizations have a formal written strategic plan.
- Between 25 and 44 percent of surveyed agencies have no plans for: fundraising, measuring organizational performance, operating agreements with other nonprofits, staff training and marketing/outreach.
- Health organizations appear to be the most prepared operationally. Over half of health agencies have formal written strategic plans. They also are more likely to have formal written plans for measurement of organizational performance (40 percent), staff training (34 percent), and, along with human services, operating agreements with other nonprofits (30 percent).

Leveraging Technology to Work Smarter

- While 80 percent of surveyed organizations use computers, increased knowledge of technology and software applications could help them work smarter. Resulting administrative shortcuts can free up staff time needed for program service and fundraising demands.
- Culture and arts and other agencies lead the rest in using Web sites as an external communications tool. Sixty-three to 68 percent have functional Web sites.
- About half of nonprofit agencies make use of databases either for managing and tracking operations or for tracking donors.

Moving Forward

For an industry that touches nearly every one of us in some form each day, Hawai'i's nonprofit industry has remained relatively unknown. In addition to the valuable services that it provides to our communities, the nonprofit sector's contributions to the economy as a major employer and revenue generator are just as significant. Understanding this sector and how it works are essential to its survival and in preserving the vitality of the state.

Resources are concentrated within approximately 1,000 organizations that have revenues greater than \$25,000. This small pool of agencies represents about 23 percent of the total nonprofits and accounts for two-thirds of the revenue generated for the entire sector. In addition, three-fourths of these agencies are long-lived entities, operating in the state for more than 10 years.

Nonprofits, however, are not all the same. Each organization type falls into one of three revenue source profiles. As a result, changes in funding sources affect how nonprofits, many of which are at or near service capacity, meet their ever-increasing demand for services.

Hawai'i Community Foundation's *Hawai'i Giving Study* in 1999 indicated that Hawai'i's people are already giving more than national averages. Private contributions, which account for nearly 20 percent of total revenues for nonprofits, cannot possibly make up for any revenue shortfall created by further reductions in the amount of government grants and contracts provided to agencies.

In response to helping local nonprofits strengthen their operations, the Hawai'i Community Foundation has created the *Organizational Capacity Building Program*. This program provides funding support to nonprofits to strengthen their practices so they can run as efficiently and effectively as their resources allow.

Please share this benchmark study with others who are interested in the success of Hawai'i's nonprofit industry and the quality of life that it creates. For a detailed report of this study, as well as other studies concerning the nonprofit community, visit the Hawai'i Community Foundation's Web site:

www.hcf-hawaii.org



HAWAII COMMUNITY
FOUNDATION

900 Fort Street Mall
Pioneer Plaza, Suite 1300
Honolulu, Hawai'i 96813
Phone: (808) 537-6333
Fax: (808) 521-6286
Neighbor Islands call
Toll-free: 1-888-731-3863

Kaua'i: (808) 245-4585
Maui: (808) 242-6184
Hawai'i Island: (808) 885-2174