

ON THE VERGE

Value and Vulnerability
of Austin's Nonprofit Sector

mission^x
CAPITAL



TABLE OF CONTENTS

▶ <u>Introduction</u>	1
▶ <u>Key Findings</u>	2-12
1. Austin's nonprofit sector is a powerful force	
2. Social problems remain while demand for nonprofit services is increasing	
3. Nonprofits face sector-wide threats to their effectiveness and sustainability	
4. Nonprofit leaders report daunting organizational challenges	
5. Leaders are eager for solutions that promote long-term sustainability	
▶ <u>Calls to Action</u>	13-18
▶ <u>Research Design and Methodology</u>	19-20
▶ <u>End Notes</u>	21
▶ <u>Acknowledgements</u>	22
▶ <u>About Mission Capital</u>	23

THIS REPORT IS MADE POSSIBLE BY



Michael & Susan Dell
FOUNDATION

INTRODUCTION

This community is at an inflection point. As the Austin area grows at hyper-speed, we're seeing profound tensions within our region: a thriving economy but many being left behind; more wealth, but also more poverty. Our nonprofit sector is at the center of this friction. This report takes a hard look at nearly 6,000 nonprofits in Central Texas and exposes thought-provoking truths behind the sector. Consider this a call to action: We have not only the need, but also the opportunity for all of us to take a bigger stand and a bold approach to solving our community's most complex issues. Let's work together to make real, substantive changes that help ensure a successful future for Austin and our region.

– Matt Kouri, CEO, Mission Capital 2015

THIS IS NOT A NONPROFIT PROBLEM, IT'S A COMMUNITY PROBLEM.

This report examines the current state of the nonprofit sector in the Austin area, detailing the size, scope and economic value of a sector that has assets approaching \$10 billion dollars.¹

While research revealed that the nonprofit sector is a powerful economic force, **our analysis uncovered ingrained threats to the long-term sustainability and effectiveness of the sector.** Most nonprofit organizations are small, face insufficiencies in governance and fundraising, and operate on thin margins, **leaving many nonprofits vulnerable.** Nonprofit leaders are feeling this burden as demand for services increases significantly. They work tirelessly, but the social issues they seek to address persist.

Mission Capital recognizes that Austin's nonprofits are at a tipping point. While some organizations are on the **verge of break out success**, sector-wide and organizational challenges have left others on the **verge of shutting down.** Addressing these challenges, and the complex problems facing our community, will require **fundamental shifts in how nonprofits operate.** It will also require a **commitment from the entire community**, including businesses, foundations, government, donors, and concerned citizens. We hope this research, and the accompanying *Calls to Action*, prompt a rich discussion across this community, and ultimately lead to transformational change.



KEY FINDING #1

AUSTIN'S NONPROFIT SECTOR IS A POWERFUL FORCE

As Austin experiences significant growth, area nonprofits are critical to improving and enriching the quality of life for our entire community. These nonprofits are a force for good, working to:

- Care for our community's most vulnerable
- Promote economic development
- Educate children, youth and adults
- Provide medical care and mental health services
- Inspire creativity and an appreciation for the arts
- Advocate for community change
- Preserve our heritage
- And more

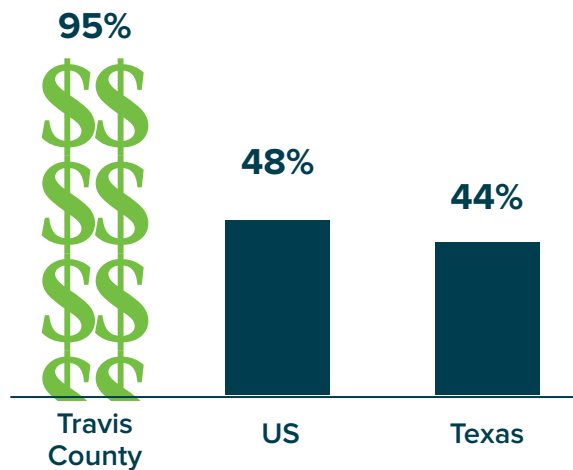
Nonprofits also connect those in need with the thousands of citizens, philanthropists, funders and businesses who wish to give back and help make this community a better place.



ECONOMIC VALUE OF THE NONPROFIT SECTOR

In addition to being a force for good, the nonprofit sector is also a powerful economic force. No doubt fueled by the region's significant population growth, **overall nonprofit revenue has nearly doubled** since 2004.² With billions of dollars in revenue and assets, the Austin-area nonprofit sector also has experienced significant employment growth.

NONPROFIT REVENUE GROWTH, 2004-2014



Source: National Center for Charitable Statistics, Business Master Files

TOTAL NONPROFIT REVENUE AND ASSETS

Austin-area nonprofit revenue:

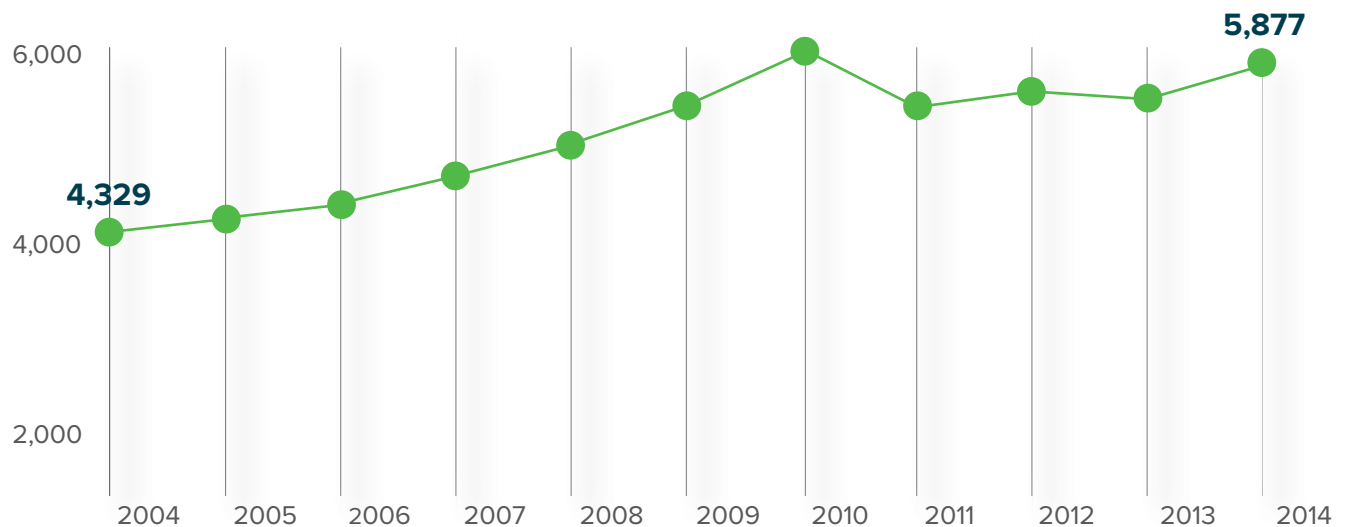
\$5.6 Billion

Austin-area nonprofit assets:

\$9.5 Billion

NONPROFIT GROWTH, 2004-2014

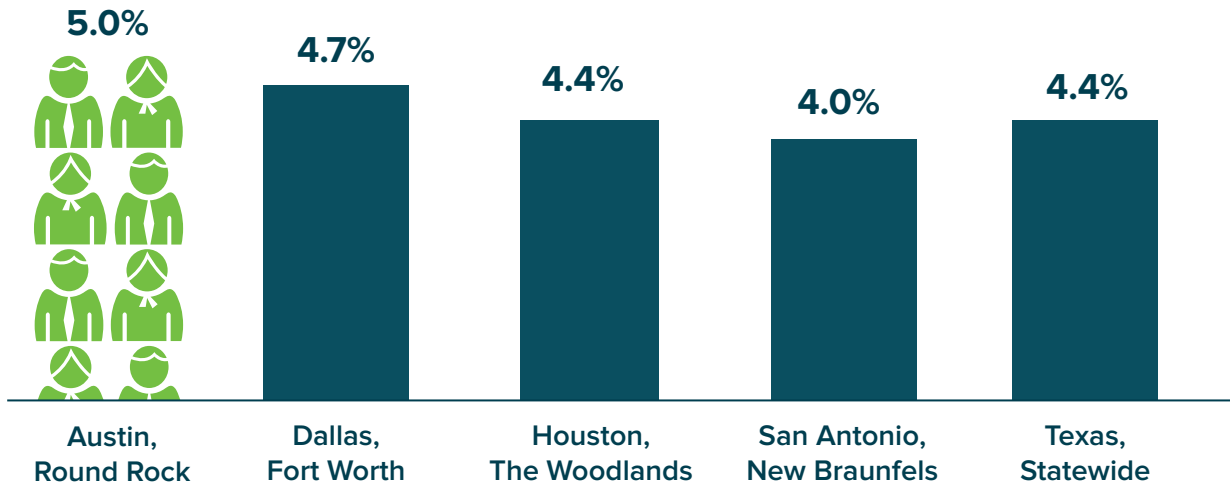
The Austin area is home to nearly **6,000 registered nonprofits**, a dramatic increase in total nonprofits in the last ten years.



Source: National Center for Charitable Statistics, Business Master Files

NONPROFIT SHARE OF TOTAL EMPLOYMENT

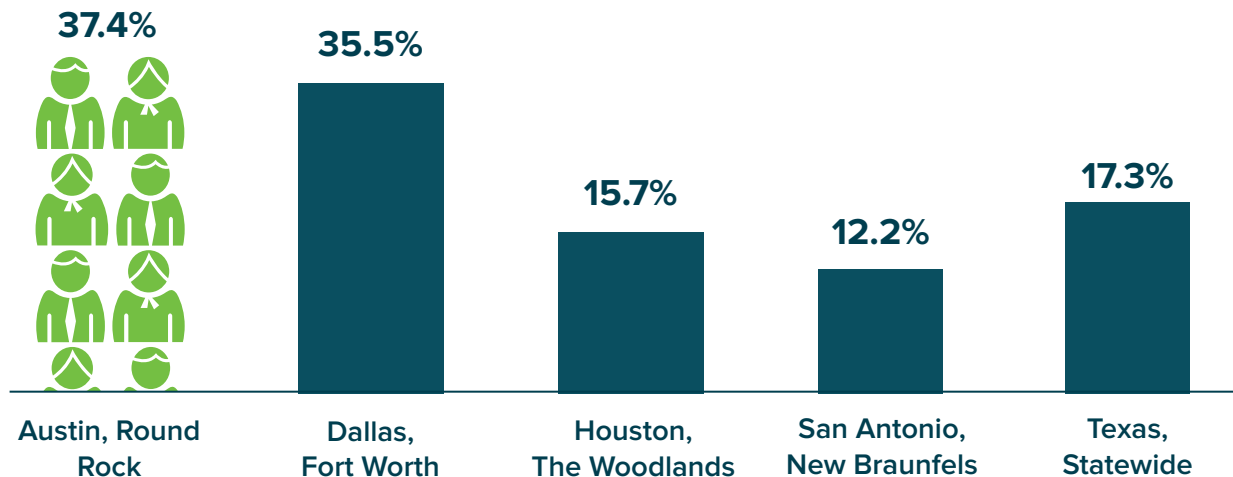
One out of every 20 workers in the Austin area is employed by a nonprofit organization (including hospitals and higher education institutions). This represents a greater share of the total workforce than other major communities in Texas.³



Source: Johns Hopkins Nonprofit Economic Data Project

NONPROFIT EMPLOYMENT GROWTH RATE, 2009-2014

The employment growth rate over the last five years in the Austin nonprofit sector is also higher than other major communities in Texas and more than twice as high as the state-wide average.



Source: Johns Hopkins Nonprofit Economic Data Project

EMPLOYMENT GROWTH RATE IN THE AUSTIN AREA, 2009-2014

In addition, employment in the local nonprofit sector has **grown at a faster rate than for-profit employment.**



Nonprofit employment



For-profit employment

Source: Johns Hopkins Nonprofit Economic Data Project

DID YOU KNOW THAT AUSTIN IS HOME TO...

- 97 ENVIRONMENTAL CONSERVATION GROUPS
- 74 NONPROFITS FOCUSED ON HOUSING
- 53 NONPROFITS FOCUSED ON FOOD/NUTRITION
- 40 NONPROFIT MUSEUMS



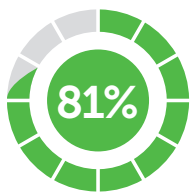
NEARLY 1 OUT OF EVERY 4 NONPROFITS HAS A HUMAN SERVICES FOCUS

KEY FINDING #2

SOCIAL PROBLEMS REMAIN WHILE DEMAND FOR NONPROFIT SERVICES IS INCREASING

Despite Austin's meteoric rise as one of the country's most desirable places to live, and the efforts of thousands of nonprofits, **major social problems in our community remain**. The gap between the rich and poor has only grown wider, hundreds in our community are chronically homeless, there are significant educational and health disparities, and a quarter of all children live in poverty.

Given these challenges, it perhaps comes as no surprise that **nonprofits are struggling to meet the needs** of our community. More than 80% of Austin-area nonprofits report an increase in demand for programs and services over the past year. As nonprofits scramble to meet this demand, 45% of organizations report they are likely to hire additional staff in 2015.⁴



81% OF NONPROFITS REPORT AN INCREASE IN DEMAND FOR SERVICES



45% OF NONPROFITS ARE LIKELY TO HIRE ADDITIONAL STAFF IN 2015

Organizations such as **One Voice Central Texas** and the **Community Advancement Network (CAN)** are bringing much needed attention to the growing economic and health disparities facing the Austin area.

To learn more about these disparities, and how Austin stacks up to other communities in our state and nation, check out CAN's Community Dashboard at cancommunitydashboard.org.

TALE OF TWO AUSTINS

#1

Fastest Growing City in America

#8

Best city to raise a family

#2

Top performing real estate market in 2012

#10

Fittest city in the U.S.

1/3

of all individuals in Travis County are struggling to make ends meet.

1/4

children in Austin live in poverty.

1/4

renters spend more than half of their income on housing.

35%

of low-income children in Central Texas are overweight or obese.

One Voice Central Texas is a coalition of health and human service nonprofit leadership advocating on behalf of vulnerable Central Texans and supporting best practices in nonprofit management since 1983.

www.OneVoiceCentralTX.org

ONE VOICE
CENTRAL TEXAS

Source: Graphic provided by One Voice Central Texas, OneVoiceCentralTX.org

KEY FINDING #3

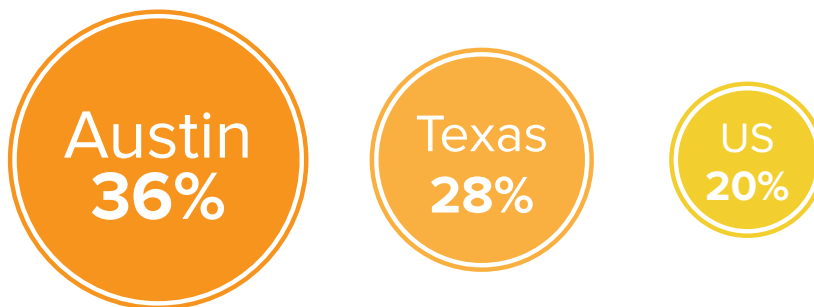
NONPROFITS FACE SECTOR-WIDE THREATS TO THEIR EFFECTIVENESS AND SUSTAINABILITY

While nonprofits are working hard to address the significant challenges in our community, our research also revealed that nonprofits face three major sector-wide threats that leave many organizations, and our community, more vulnerable.

THREAT #1: THE NONPROFIT SECTOR IS CROWDED

The number of nonprofits in the Austin area has **increased by 36% since 2004**, nearly double the national rate and significantly more than the state-wide average. While new nonprofits can bring fresh approaches to solving problems, too many nonprofits can also create increased competition for resources and duplications of infrastructure.

INCREASE IN NUMBER OF NONPROFITS SINCE 2004



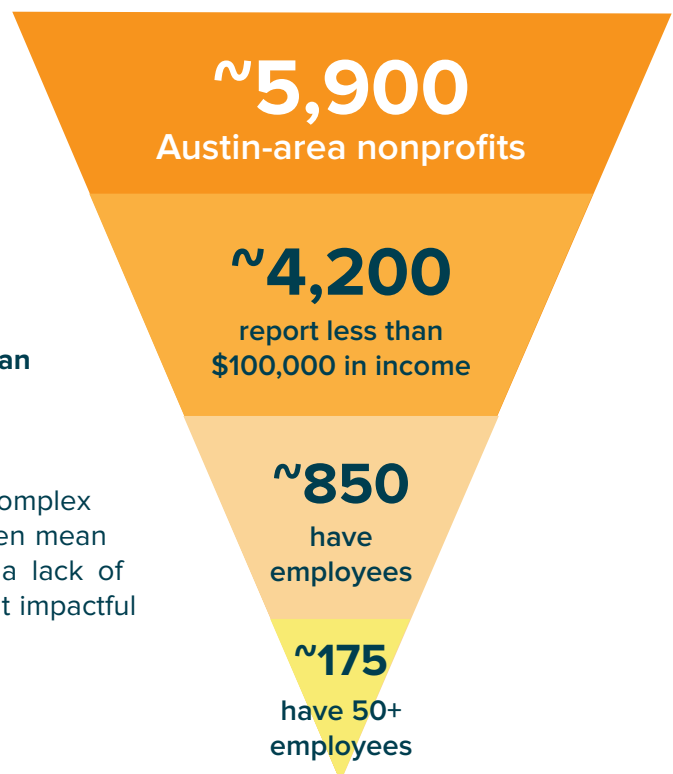
Source: National Center for Charitable Statistics, Business Master Files

THREAT #2: MOST NONPROFITS ARE SMALL

Despite the ever-growing number of nonprofit organizations, the vast majority are small.

Nearly three-quarters of nonprofits have annual income of less than \$100,000.⁵ In addition, **less than 15% of area nonprofits have any employees** and only 3% have 50 or more staff members.⁶

Running an effective nonprofit can be especially complex for small organizations, and limited resources often mean they struggle to make ends meet. In addition, a lack of internal capacity can make it difficult to implement impactful programs and services and to grow.

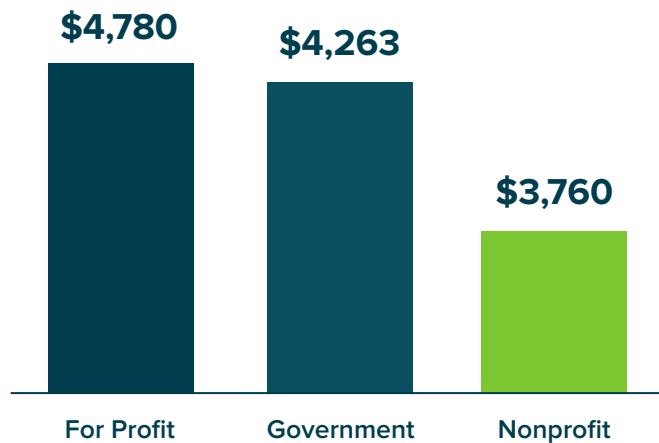


THREAT #3: NONPROFIT STAFF ARE UNDERPAID

We found that Austin-area nonprofit wages are **21% below for-profit wages** and **12% below government wages** in the region. In addition, despite Austin’s high cost of living, wages for area nonprofit staff are **11% below nonprofit wages** in the state.

A highly skilled, professional staff is critical to a nonprofit’s ability to effectively serve the public and tackle complex community challenges. As the nonprofit workforce becomes increasingly professionalized, compensation is a major factor in the sector’s ability to attract and retain talent.⁷

AVERAGE MONTHLY WAGES IN AUSTIN AREA BY SECTOR



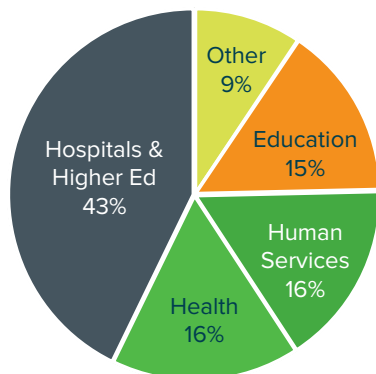
When higher education and hospitals are excluded, nonprofit wages in Austin drop from 11% to **14% BELOW** those of nonprofit staff statewide.

Source: Johns Hopkins Nonprofit Economic Data Project, 2014, nonprofit wages include hospitals and higher education

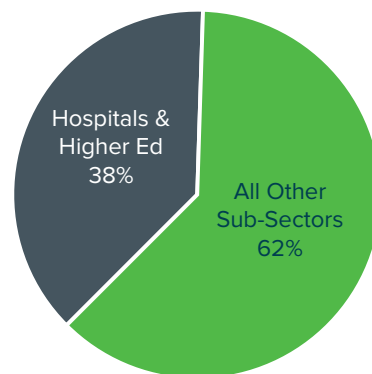
NONPROFIT SECTOR IS SMALLER THAN IT SEEMS

On page 3 we reported that Austin’s nonprofit sector revenue is more than \$5.5 billion with assets approaching \$10 billion. Digging deeper, we found that a **significant portion of total revenue** (43%) and assets (31%) is **found in area nonprofit hospitals and higher education institutions**. In addition, when employees of hospitals and higher education are removed, the nonprofit workforce shrinks from over 42,000 paid workers to fewer than 27,000.

REVENUE BY SUB-SECTOR



EMPLOYEES BY SUB-SECTOR



Source: National Center for Charitable Statistics, Business Master Files, Johns Hopkins Nonprofit Economic Data Project

KEY FINDING #4

NONPROFIT LEADERS REPORT DAUNTING ORGANIZATIONAL CHALLENGES

In addition to the systemic challenges identified by the research, nonprofit leadership – executive directors, CEOs, and board chairs – also identified major organizational, operational, and financial issues hindering their effectiveness.

SURVEY RESULTS REVEAL SIGNIFICANT CHALLENGES

Nonprofit leaders were asked for their opinion on a number of measures of organizational health and effectiveness.⁸ The results show **insufficiencies in key operational and strategic areas**, such as board development and fundraising. Only a quarter of leaders believe their board has the needed diversity, expertise and connections to help drive their organization, and only 22% of leaders report their organization has the fundraising skills needed for success.⁹

Percentage of nonprofit leaders who agree that their organization has:



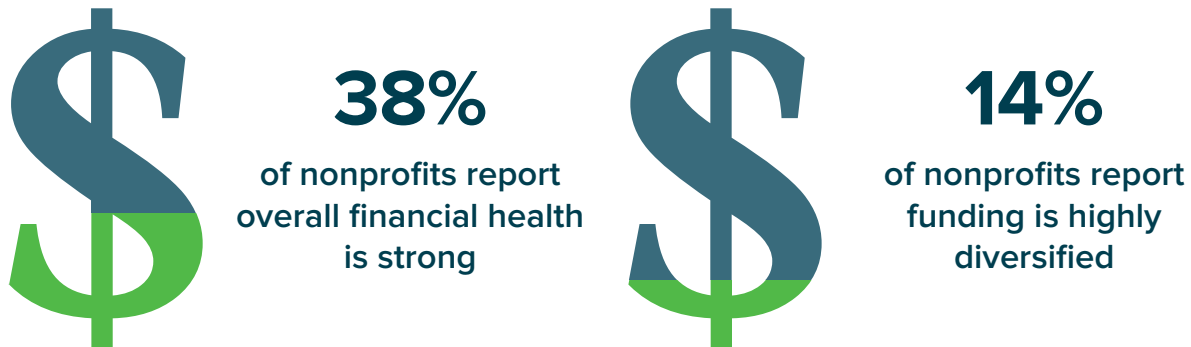
PERSPECTIVES FROM NONPROFIT LEADERS

Mission Capital's 2014 *State of the Nonprofit Sector* survey was completed by more than 200 nonprofit leaders. The survey was conducted to assess local trends in nonprofit services, demand, financial health and capacity.

Executive Directors/CEOs and Board Chairs of nonprofits with a budget size of \$50,000 or greater were invited to participate in the confidential survey.

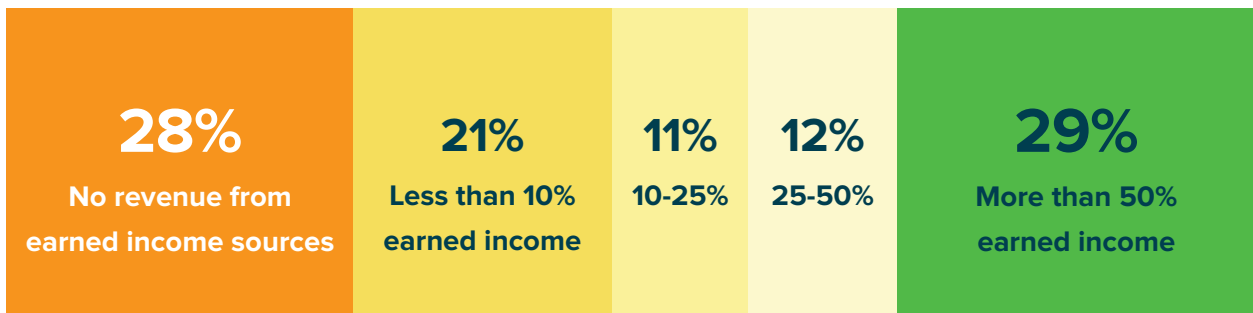
FINANCIAL SUSTAINABILITY IS THE #1 CHALLENGE

When nonprofit leaders were asked to identify the primary challenges facing their organization, almost half reported “achieving financial sustainability” as a key obstacle.¹⁰ It perhaps comes as no surprise then that less than 40% of leaders believe the overall financial health of their organization is strong.¹¹



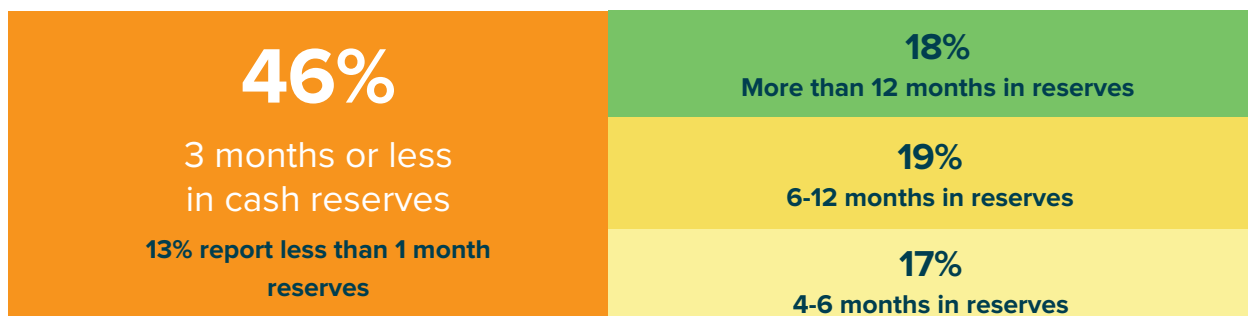
TOTAL REVENUE FROM EARNED INCOME

Diversified funding is a major concern for nonprofits, with nearly half of nonprofit leaders reporting that less than 10% of revenue comes from earned income sources. In fact, more than a quarter of nonprofit leaders report that their organization brings in no earned income.¹²



NONPROFIT CASH RESERVES

Nearly half of all nonprofits report cash reserves of 3 months or less, with 13% of these organizations reporting less than 1 month of reserves.¹³ For many nonprofits, a low level of cash reserves can be a sign of financial insecurity.



HOW SMALL NONPROFITS COMPARE TO LARGE NONPROFITS

Not surprisingly, data from our survey of nonprofit leaders revealed that **small nonprofits are significantly less confident** about their capacity in the areas of fund development, governance, strategy, and evaluation, compared to organizations over \$2 million in size.¹⁴

As a side note, medium-sized organizations typically fell somewhere in the middle, although these differences were not statistically significant.

PERCENTAGE OF NONPROFITS THAT AGREE WITH THE FOLLOWING

SMALL NONPROFITS BUDGET SIZE <\$500,000

50%

We have a **strong overall strategy** that drives our work

24%

Our **board provides strong direction**, support and accountability

12%

Our organization has **highly-developed internal fundraising skills** and experience

20%

We have a well-developed **process for collecting data to evaluate our performance**

9%

Our **funding is highly diversified** across multiple sources and types of funding

LARGE NONPROFITS BUDGET SIZE \$2M+

77%

50%

40%

40%

37%

ORGANIZATIONAL SELF-ASSESSMENT OF FINANCIAL HEALTH

68% of large nonprofits report their overall financial health as strong, compared to only 20% of small nonprofits.

KEY FINDING #5

LEADERS ARE EAGER FOR SOLUTIONS THAT PROMOTE LONG-TERM SUSTAINABILITY

While nonprofit leaders acknowledge the challenges facing their organizations, they are also looking ahead with optimism. Survey respondents identified a number of top priorities for focus in 2015 and beyond, including the **exploration of new financing and business models**. Another area of interest among nonprofit CEOs/EDs is **expanding existing programs** to meet growing service demand.

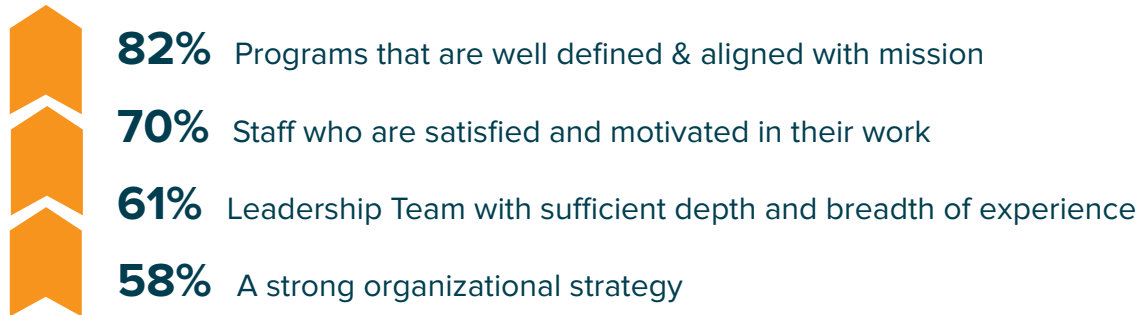
TOP 5 FUTURE PRIORITIES

- 1 Financial sustainability
- 2 Fundraising capacity and donor recruitment strategy
- 3 Alternative financing strategies
- 4 Expansion of existing programs and services
- 5 Strategic/business planning

EXISTING STRENGTHS AMONG NONPROFITS

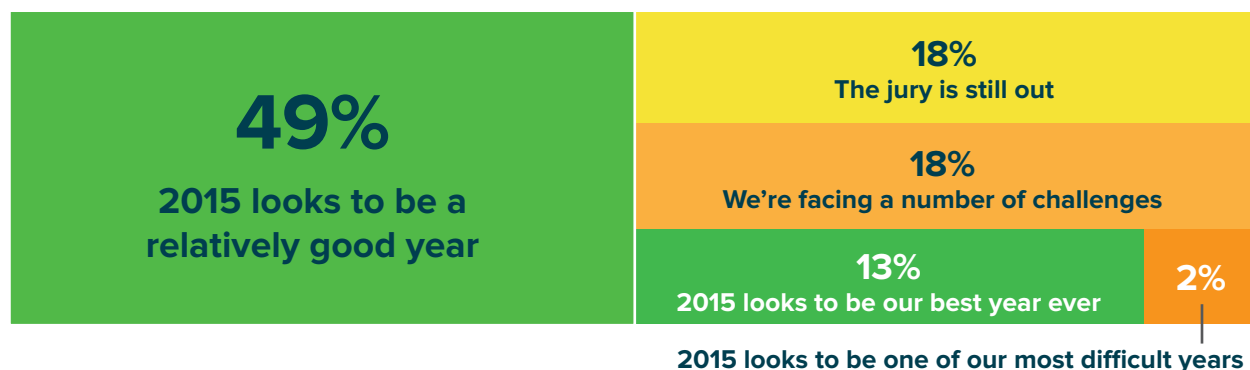
Nonprofit leaders reported strengths in several areas of organizational health and effectiveness, including well-defined programs and strong leadership teams.¹⁵

Percentages of nonprofit leaders who agree their organization has:



NONPROFIT LEADERS LOOK AHEAD WITH OPTIMISM

62% of nonprofit leaders report they are optimistic about their organization's outlook, including 49% who expect 2015 to be a "relatively good year."



CALLS TO ACTION

While this report demonstrates that Austin’s nonprofit sector is a powerful force in the community, it also highlights areas that are holding back the sector. The majority of nonprofits are small and under resourced, with fewer than 40% of nonprofits who consider themselves financially strong. Only 15% of nonprofits have any paid staff, and despite the rising cost of living, nonprofit salaries are below the state average. Nonprofit leaders are also struggling with key operational components: diversified funding, recruiting and retaining experienced board leaders, financial stability, and achieving overall, long-term sustainability.

In the midst of these challenges, the demand for services is increasing and persistent social problems are not going away. In light of this current state of the nonprofit sector, and broader community challenges that remain unsolved, **it’s time for a new approach.**

How can the nonprofit sector not only meet rising demands, but make a lasting impact on big community problems? We hope the following *Calls to Action* will prompt discussion and encourage action across our community.

1 IMPROVE NONPROFIT EFFECTIVENESS

All nonprofits must be willing to take a hard look at their organizational performance and better understand how they can be more effective. Although there is no universal definition of what it means to be an effective nonprofit, Mission Capital has identified six essential elements we believe are critical for an organization to thrive and create meaningful impact in the community. At the center of this **“effectiveness framework”** is a nonprofit’s ability to: clearly define its intended impact and how to achieve this impact; develop a sustainable business model; recruit and retain visionary, results-driven leaders.

Nonprofit organizations and their partners must assess their strengths and weaknesses in these areas and hold themselves accountable for improved impact. It’s also critical for philanthropic leaders and donors to look deeper at their investees’ immediate and longer-term potential for impact and to **channel resources to those nonprofits with the best possible social return on investment.**



MISSION CAPITAL'S EFFECTIVENESS FRAMEWORK

Mission Capital has identified **six essential elements** that are critical in order for a nonprofit to thrive and create meaningful impact in the community. To download the full report and for actionable tools to help understand and achieve organizational effectiveness, visit missioncapital.org/what-we-do/nonprofit-effectiveness.

ELEMENTS OF NONPROFIT EFFECTIVENESS



1. CLARITY OF PURPOSE

How to define and align work and impact

Topics include: mission and vision, sound analysis, theory of change strategic planning, program mix



2. SUSTAINABLE BUSINESS MODEL

How to develop resources and position the organization for success

Topics include: financial viability, value proposition, budgeting, culture of philanthropy, development plan, stable funding



3. THE RIGHT LEADERSHIP

How staff and board leaders steer and steward organizational efforts

Topics include: leadership structure, management and supervision, executive leadership, board of directors, leadership succession



4. SMART OPERATIONS

How to manage and marshal organizational resources

Topics include: human capital, appropriate resources, information management, policies and procedures, brand, culture



5. IMPLEMENTATION AND IMPROVEMENT

How to use information to adapt, improve and innovate

Topics include: program quality, metrics, evaluation, experimentation, professional development



6. STRATEGIC COLLABORATIONS

How to leverage the community for greater impact

Topics include: external resources, community partnerships, system change and system leadership

2 INVEST IN HIGH-PERFORMING NONPROFITS

Even strong nonprofits have often had to make do with too little for too long. **These organizations are starved for steady financial capital necessary to scale their programs and increase their efficiency and effectiveness.** They must compete with thousands of other nonprofits for scarce funding and resources. On top of that, they continue to experience **pressure to conform to unrealistic expectations about what it takes to run a truly impactful nonprofit.**

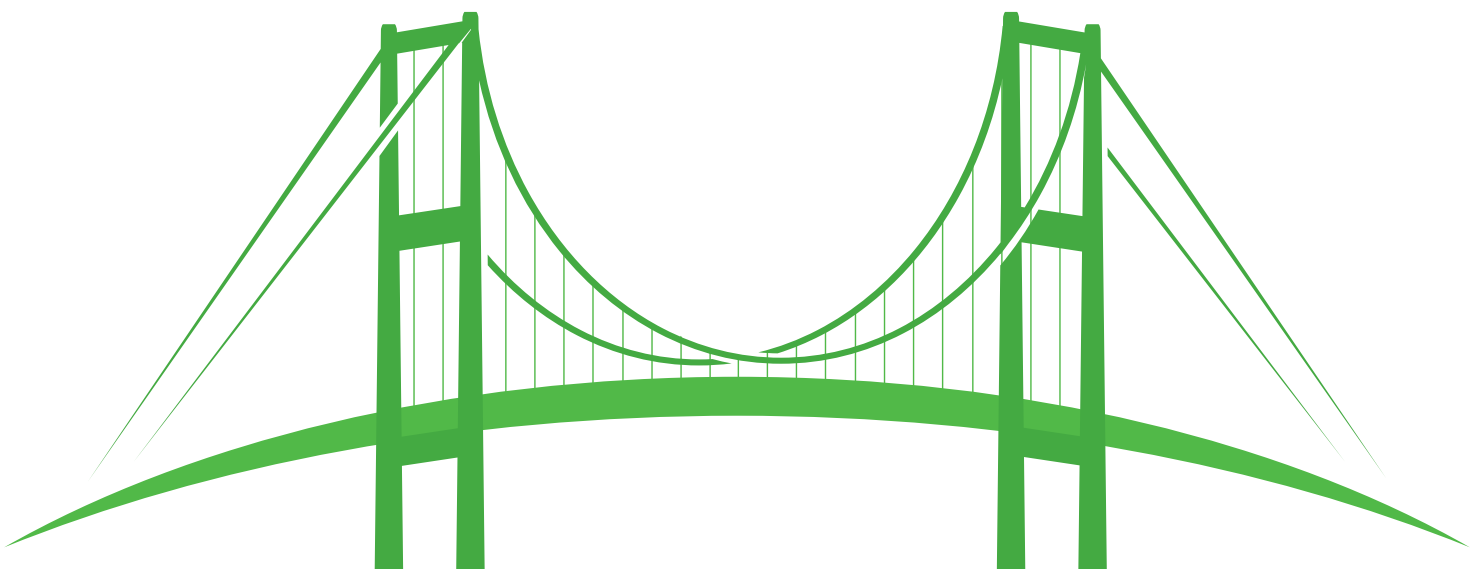
Groups across the country are exploring creative solutions to enable nonprofits to secure the funding needed for growth and sustainability. However, Austin lags behind. Cross-sector leaders from business, government and the social sector **should evaluate and promote financing options that allow nonprofits with proven programs and social innovations to increase their organization's reach and impact.**

Just as important as access to financial capital is the mental shift that must take place regarding nonprofit investment in overhead.¹⁶ Rather than being rewarded for keeping overhead as low as possible, nonprofits with a high potential for impact should be encouraged to prioritize investments in such areas as leadership and staffing, fund development, technology, and outside business expertise. **Boards, nonprofits, community partners, and perhaps most importantly funders, must be willing to challenge the existing status quo in order to build the capacity needed for significant change.**

BRIDGING THE INVESTMENT GAP

Since 1970, only **144 nonprofits** in the US have crossed the \$50 million revenue mark compared to **46,000 for-profit** companies.

Source: *The Way We Think About Charity Is Dead Wrong*, Dan Pallotta, [Ted.com](https://www.ted.com/talks/dan-pallotta-the-way-we-think-about-charity-is-dead-wrong)



TRENDS IN INNOVATIVE INVESTMENT SOLUTIONS:

- **Social enterprises** are a type of business venture designed to generate revenue while also seeking to solve or address a social problem. For-profit social enterprises are cropping up everywhere, and some nonprofits have also begun to explore creative ideas for earned revenue streams that can lead to greater financial sustainability. Locally, Easter Seals of Central Texas has recently launched **Easter Seals Lawn & Landscape Services**, a residential and commercial landscaping business which is working to create paid jobs for adults with disabilities. In addition to its powerful impact on clients, Easter Seals hopes that over time it will generate substantial revenue for the organization.
- **Program related investments (PRIs)** allow foundations (and other donors) to offer equity investments, loans, loan guarantees, and other investments to nonprofits, allowing these groups to access capital at a lower than market cost. Although foundations have been offering PRIs for decades, they have not been used with much frequency due to confusion regarding their use. Recently, however, the IRS has released new guidance on the types of investment that can qualify as a PRI, opening the door for more funders and nonprofits to benefit from this type of investment.
- **Social impact bonds (SIBs)**, also known as **“Pay-for-Success” (PFS)** initiatives, are innovative mechanisms for scaling up and financing proven social interventions aimed at dramatically improving lives of those in need. PFS is a promising new practice in which philanthropic and private risk capital are used to fund and scale health and human services (most often in a preventative fashion) that have been shown to produce real results, while also reducing the financial and societal costs associated with remediation. In common forms of this model, the government pays a social service provider if targeted outcomes (such as reduced recidivism) are achieved. The financial capital needed to initially cover the costs of providing services comes from private and philanthropic investors, who in turn can expect a financial return on investment if the program is successful. PFS also shows promise outside of the government arena, as funders are considering structuring some of their funding around a pay-for-success model.
- **Social Venture Funds** are commonly a group of **pooled funds**, typically from impact investors who want to be assured of a high social return on investment, but with a low or no financial return on their investment. Funding from these investors is often coupled with high level strategic advising to build internal capacity, business acumen, and organizational development. Organizations wishing to obtain funding typically go through an intensive screening and selection process, with investors focused on high-performing nonprofits (or for-profit social ventures) with a strong track record of success. In Austin, Mission Capital’s Social Venture Partners is a group of entrepreneurs and philanthropists who bring funding and expertise to help scale mission-driven organizations.

3 EMBRACE BLURRING SECTOR LINES

In recent years, the lines between the for-profit, nonprofit and public sectors have been redefined. Socially responsible businesses are on the rise, more nonprofits are exploring earned revenue streams and there is an emergence of “hybrid” organizations that are blending the attributes from all three sectors. This “cross-sector convergence” has allowed for greater dialogue among nonprofit, corporate and government leaders, and an increased eagerness to collaborate.¹⁷

At the same time, the nonprofit and philanthropic communities understand that **isolated approaches to achieving impact rarely result in lasting change.** The scale and complexity of social problems, along with a lack of systems-wide progress in addressing these issues, has required leaders to think differently about how best to achieve real community progress. **Deliberate, long-term, collective approaches bring groups of people and organizations together to define the problem and create a shared vision for solving it.**

There are powerful models of “collective impact” initiatives taking place all over the country.¹⁸ While there are also examples of Austin-area nonprofits who have teamed up with community stakeholders to pioneer innovative solutions to complex challenges, it is only a start. This is a massive undertaking and **cross-sector leaders must commit to a common agenda and bold, new approaches** to what we’ve traditionally thought of as “collaboration.” Although the challenges are great, given Austin’s entrepreneurship spirit, abundant resources and passionate non-profit and civic leaders, our community is primed and ready to achieve **transformational change.**



CROSS-SECTOR EFFORTS IN CENTRAL TEXAS: EXAMPLES TO CONSIDER

E3 ALLIANCE

The E3 Alliance is a regional collaborative focused on building a strong educational pipeline. They engage dozens of businesses and nonprofits, 13 school districts, eight institutions of higher education, and policy leaders across Central Texas. Formed in 2006, the Alliance has achieved a number of critical “wins” including more than quadrupling the number of students in science, technology, engineering and math (STEM) pipeline, as well as launching a region-wide initiative to transform middle school teaching and learning.

GO AUSTIN!/VAMOS AUSTIN!

GO! Austin!/VAMOS! Austin! is an initiative funded by the Michael & Susan Dell Foundation that engages neighborhood leaders, area nonprofits, schools, city and municipal partners and businesses to improve the health and well-being of children and families. This place-based initiative aims to prevent childhood obesity in the 78744 and 78745 zip codes, using a resident driven approach to increase access to healthy food and safe physical activity and promote healthy behavior.

TRAVIS COUNTY COLLABORATIVE FOR CHILDREN

The Travis County Collaborative for Children is an intensive, multi-year, multi-partner initiative catalyzed and led by Texas Christian University Institute of Child Development. The project is aimed at transforming the model of care for foster children and dramatically improving their lives and outcomes. Built on a model of collective impact, the leadership and advisory teams include representatives from County courts, CPS, CASA of Travis County, and numerous residential treatment centers, child placement agencies and advocacy groups. Mission Capital is proud to serve as a leading partner in the initiative.



OVERVIEW OF RESEARCH DESIGN AND METHODOLOGY

NONPROFIT EMPLOYEE DATA

The data regarding nonprofit employment in Texas were assembled by the Texas Workforce Commission and by Johns Hopkins Center for Civil Society Studies researchers. The employment data come from the Quarterly Census of Employment and Wages (QCEW) records maintained by the Bureau of Labor Statistics (BLS). Nonprofit establishments were identified by matching QCEW records with those of the Exempt Organizations Master File (EOMF) maintained by the Internal Revenue Service (IRS).

NONPROFIT LEADERS SURVEY

A major component of this study was the *State of the Nonprofit Sector* survey developed by Mission Capital to assess local trends in nonprofit services, demand, financial health, and capacity. The survey contained items developed by Mission Capital staff, as well as items modified from the Organizational Capacity Assessment Tool (OCAT) 2.0 developed by McKinsey and Company and the Nonprofit Finance Fund State of the Sector survey. The survey targeted the current executive director/CEO or other paid leader of public charities in the Austin area with a budget of at least \$50,000. If the organization had no paid leader, we asked that the board chair complete the survey.

The *State of the Nonprofit Sector* survey was distributed electronically from September 23-October 31, 2014 via electronic newsletter, website placement and social media. A series of four targeted emails were also sent to nonprofit executive directors, CEOs, and board chairs. This was a sample of convenience, however Mission Capital worked to expand the pool of nonprofit leaders contained in our house-file. This was done by obtaining a data-set of registered 501(c)3 public charities in the Austin Metropolitan Statistical Area (MSA) from GuideStar USA. Mission Capital then selected nonprofits with an income of \$50,000 or higher and included these organizations in our database. In many cases, email addresses for the executive director or board chair were unavailable. For these organizations, Mission Capital worked to obtain a valid email address by contacting the organization or via a website search.

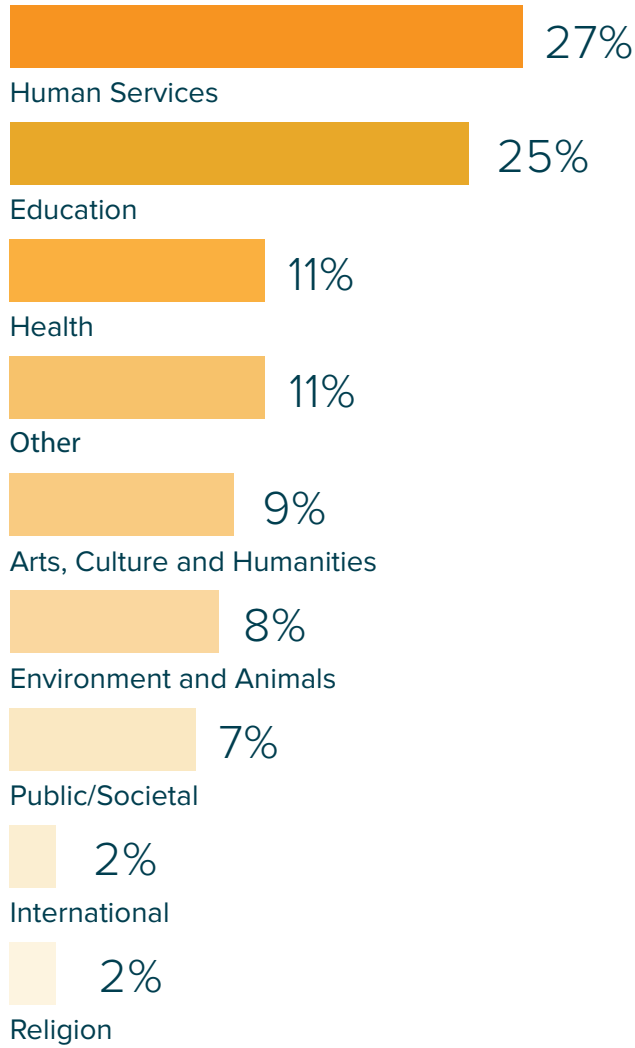
The survey was sent to 998 executive directors/CEOs/paid leaders and board chairs. The survey yielded 237 total responses and 203 completed surveys.

To determine differences between the responses of leaders of small, medium, and large nonprofits, the web-based software *MarketSight* was utilized. An alpha level of .05 was used as our marker of statistical significance for all statistical tests conducted.

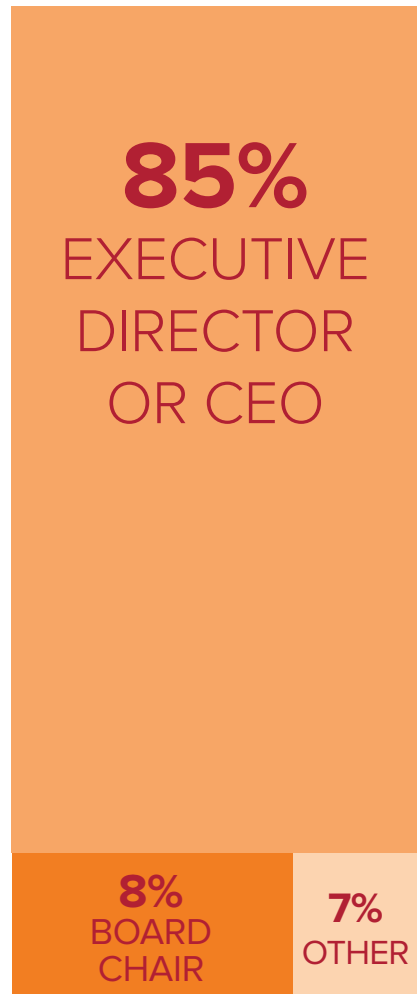
For complete survey results, contact Marisa Zappone at marisaz@missioncapital.org.

ABOUT THE SURVEY SAMPLE

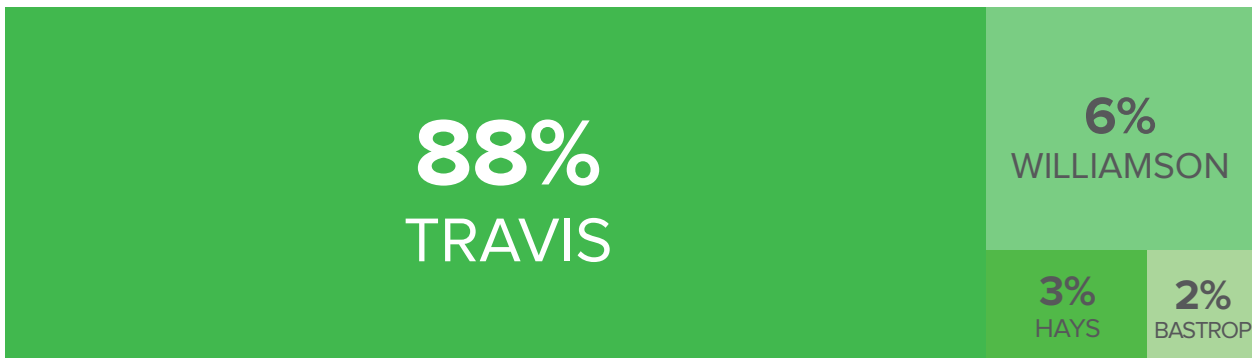
MISSION AREA OF ORGANIZATIONS



WHO COMPLETED THE SURVEY



NONPROFIT LOCATION BY COUNTY



NUMBER OF FULL TIME EQUIVALENT STAFF

Mean: 31 Median: 5 Mode: 1

END NOTES

¹ For the purposes of this report, the “nonprofit sector” is defined as organizations exempt from income tax under Section 501c3 of the IRS Code and are commonly referred to as “public charities.” It does not include other types of 501(c) exempt entities, such as civic leagues (501c4) or social clubs (501c7). The total number of nonprofits refers to registered organizations only (there are some public charities, such as religious organizations, that are not required to register, although many do). All references in this report to “Austin” or the “Austin area” refers to the Austin Metropolitan Statistical area which includes the counties of Travis, Williamson, Caldwell, Hays, and Bastrop.

² Only organizations who submit IRS Form 990 or 990-EZ are included in this data.

³ Total employment includes all private and government employment. Data is from 2014 Quarter 1. The nonprofit sector refers to 501(c)3 organizations, commonly referred to as “public charities.” For more information on the methodology related to nonprofit sector employment calculations, see the *Research Design and Methodology* section.

⁴ The data in this paragraph comes from nonprofit leaders who responded to Mission Capital’s *State of the Nonprofit Sector* survey, fall 2014.

⁵ Income data is from Guidestar. Income is defined as “money that the organization has received from contributions, grants, the performance of services, etc. GuideStar takes this figure from line 12 of IRS Form 990. These are net figures from which rental expenses, costs, sales expenses, direct expenses, and costs of goods sold (lines 6b, 8b, 9b, and 10b on Form 990) have been deducted. If GuideStar currently has no Form 990 information, the figure is taken from the IRS Business Master File. Income listed on the Business Master File is a gross figure that includes the expenses listed above. For Form 990-EZ, the BMF income figure is generated by using line 9 of Part I and adding in the expense items, i.e. line 5b (Cost or Other Basis and Sales Expenses). Organizations with gross receipts less than \$200,000 may complete the 990-EZ and organizations with gross receipts less than \$50,000 may complete the 990-N Postcard (the Postcard does not include income, net or gross).” Records from the National Institute of Charitable Statistics indicate that 2,228 501c3 public charities (June 2014) reported \$0 revenue and \$0 assets or filed the 990-N Postcard (gross receipts less than \$50,000).

⁶ Data on the estimated number of nonprofits with 1 or more employees comes from the Johns Hopkins Nonprofit Economic Data Project. Data excludes hospitals and higher education institutions. Data is based on the fact that there are 860 nonprofit establishments which account for a total of 26,639 paid workers as of the first quarter of 2014. Establishments does not necessarily mean organizations, as some organizations may have multiple establishments. Therefore the 860 number most likely inflates the total number of nonprofit organizations with paid workers. Data on the estimated numbers of nonprofits with 50 or more employees comes from GuideStar USA.

⁷ For more information, see Mission Capital’s report, *The New Nonprofit Workforce: Emerging Trends and Recommendations*,

⁸ For complete survey results, contact Marisa Zappone at marisaz@missioncapital.org

⁹ The percentages reflect ratings of 6-7 on a 1-7 scale where 1=very weak; 2=weak; 3=somewhat weak; 4=neither weak nor strong; 5=somewhat strong; 6=strong; 7=very strong

¹⁰ This was also the top challenge identified nationally by the most recent State of the Sector survey conducted by the Nonprofit Finance Fund nonprofitfinancefund.org/state-of-the-sector-surveys

¹¹ The percentages reflect ratings of 6-7 on a 1-7 scale where 1=very weak; 2=weak; 3=somewhat weak; 4=neither weak nor strong; 5=somewhat strong; 6=strong; 7=very strong

¹² Earned income was defined as revenue generated from the sale of goods, services rendered or work performed, including government contracts. Due to rounding, totals do not equal 100%.

¹³ This number is comparable to recent survey data from the Nonprofit Finance Fund which found that 55% of nonprofits nationally have three months or less of cash operating reserves.

¹⁴ A statistically significant relationship at the .05 level was found for each of the reported responses. The percentages reflect ratings of 6-7 on a 1-7 scale where 1=strong disagree; 2=disagree; 3=somewhat disagree; 4= neither agree nor disagree; 5= somewhat agree; 6=agree; 7=strongly agree

¹⁵ The percentages reflect ratings of 6-7 on a 1-7 scale where 1=strong disagree; 2=disagree; 3=somewhat disagree; 4= neither agree nor disagree; 5= somewhat agree; 6=agree; 7=strongly agree

¹⁶ For more information on nonprofit overhead, see overheadmyth.com

¹⁷ For more information on cross-sector convergence, see fourthsector.net/learn/fourth-sector

¹⁸ For more information on collective impact, see fsg.org/OurApproach/CollectiveImpact.aspx

ACKNOWLEDGEMENTS

Mission Capital would like to express our deep gratitude to the Michael & Susan Dell Foundation for generously helping to fund this project.

We are also very grateful to the following groups and individuals for helping to make this report possible.

- **One Voice Central Texas**, for granting us permission to include the graphic, *A Tale of Two Austins*, in this report.
- **Courtney Hoffman & Neal Nolan**, Mission Capital Board Members, for their work in obtaining data from the Texas Workforce Commission.
- **Stephanie Geller** and **Wojtek Sokolowski** of the Johns Hopkins University Center for Civil Society Studies, for compiling the nonprofit employment data.
- **Francie Ostrower, Semonti Basu, Virginia Potter** and **Donald Zappone** for their feedback on a draft of the survey used for this research.
- **Karin Samii Shore** for assistance and feedback regarding survey design and sampling, analysis and reporting.
- **John Olsson**, for his technical assistance and advice.

Finally, a **special thank you** to the hundreds of nonprofit leaders who completed the state of the sector survey. We are so grateful for your participation and your leadership in the community.

This report does not necessarily reflect the individual views of funders or advisors previously listed.



ABOUT MISSION CAPITAL

Mission Capital is Austin's go-to social sector resource and leader, providing nonprofits, philanthropists and funders with the tools and guidance they need to tackle complex community challenges.

While Austin experiences significant economic and population growth, persistent social challenges remain. At Mission Capital, we believe that most of these deep community issues will not be solved by a single organization, but instead require cross-sector collaboration among nonprofits, funders, businesses and government.

We also believe that high-performing nonprofits are at the core of community problem solving and, with an investment of expertise and financial capital, they have the ability to be transformational.

To help address our community's most complex challenges, Mission Capital will...

- Strengthen nonprofits who are poised to meaningfully address community needs
- Bring cross-sector expertise and resources to advance innovative solutions
- Promote and lead collective impact initiatives
- Engage with funders and philanthropists to magnify their impact and increase their social return on investment

MISSION CAPITAL SERVICES AND RESOURCES

- **Social Sector Research**
- **Consulting Services**
- **Learning and Leadership**
- **Membership Programs**
- **Templates and How-Tos**

MISSIONCAPITAL.ORG



To the Power of Good.

mission^x
CAPITAL
MISSIONCAPITAL.ORG