

Draft Draft Draft

The Third Sector: The Emerging Nonprofit Landscape in Maine

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I first would like to take this opportunity this evening to thank Dick Barringer for his invitation to share some thoughts regarding the nature of the nonprofit sector in Maine. When I came to the University of Southern Maine and the Muskie School of Public Service in 1996, I was asked to put the final touches on a proposal for our graduate certificate in nonprofit management. In working on that project with Dick Barringer I became increasingly aware of the significance and contributions of the nonprofit sector to the vitality and growth of the State of Maine. Eight years later I am even more convinced that the future of Maine is inexorably linked to the future of its charitable and nonprofit community.

This evening we will consider the tradition of nonprofit service in Maine, the role of the sector as employers of significance, the sector as a reflection of our unique environment, and attempt to identify what lies ahead for the over 4000 charitable organizations that call the State of Maine home. Finally, I will suggest some first steps we should consider in addressing the changing nonprofit landscape and strengthening the social fabric of our communities in these times of change and uncertainty.

The “Lost Continent” of Non-Profits

“It has long been clear to sensitive observers that Maine is a more caring and compassionate, a more sane and sensible place than the nation of which we are a part. The values of Maine are best illuminated for us...not by those who deal in the currencies of profit and power but of symbols and

spirit.” These words, written by our host of this series, Richard Barringer in the first Changing Maine series in 1989, capture in many ways the essence of the contributions of the third sector in Maine. Before I begin my comments about the changing nonprofit landscape in Maine, however, I would like to take a few moments and give you a sense of the nonprofit sector throughout the United States.

Nonprofit and other charitable organizations constitute a distinctive sector, in that they engage (us) people in collective purposes outside of the market place and the state. Nonprofit organizations are independently organized and self-governing. They are voluntary (in that membership in them is not legally required, and they attract some level of voluntary contribution of time or money); they are also not profit-distributing, in that they do not return profits to their managers or to a set of “owners”.

That said, nonprofit groups are characterized by tremendous diversity in their origins, size, finances, the types of activities they undertake, the people they serve, and the means they use to reach their goals. Nonprofit causes may include environmental preservation, health education, the arts, and the care of the elderly. Some nonprofit organizations aim to benefit their own members, others to promote broader well-being among the public, including the opportunities they provide for democratic participation in the life of the communities in which they are found.

The products of nonprofit organizations can include artistic and cultural productions, political advocacy, spiritual guidance, and care for the poor, sick, and disabled. As new social problems emerge and are recognized, new agencies are created to meet the need. Agencies for runaway youth, shelters for battered women, hospices for AIDS patients – to name the agencies is to chart the development of the nation’s social welfare agenda in the past few decades. In addition to their service functions, nonprofit organizations play economic and political roles, as well. Alexis De Tocqueville recognized the powerful contributions of voluntary associations to the country’s

political and intellectual life; and voluntary associations still enable citizens to express their collective interests and solve community problems.

Because of their unique position outside the market and state, their connections to citizens, their flexibility, their capacity to tap private initiative in support of public purposes, and their newly “rediscovered” contributions to building social capital, civic organizations have surfaced as strategically important participants in the search for a middle way, between sole reliance on the market and the state as service providers.

However, as the nonprofit scholar Lester Salamon has commented: “the nonprofit sector remains the lost continent, on the modern landscape of modern society, invisible to most policy makers, business leaders, and the press, and even too many people within the sector, itself.” What we know about the charitable sector is largely limited to those public-serving serving organizations that are eligible to receive tax-deductible donations. This includes organizations registered with the Internal

Revenue Service (IRS) under section 501 [c][3] of the Internal Revenue Code, which embraces private, not-for profit hospitals, clinics, colleges, universities, elementary schools, social service agencies, day care centers, orchestras, museums, theatres, environmental organizations, homeless shelters, animal welfare organizations, and many more.

Throughout most of United States, the nonprofit sector, is comprised overwhelmingly of small, community-based entities with relatively meager resources. Even among organizations meeting the threshold for IRS reporting, most have modest budgets, use only volunteer labor, and operate locally. Resources and employees are highly concentrated in the largest organizations, chiefly hospitals and universities, which often dominate the national statistics on the nonprofit sector.

The ebb and flow of political and economic forces affect the growth rates, strengths, and viability of nonprofit organizations. An estimated 40% of public charities suffered a decline in inflation-adjusted income dollars between 1989 and 1995. A similar number are operating on a very slim margin, with net worth less than or equal to three months of expenses. Nonprofit revenues are a complex mix of private and public dollars raised through grants, contracts, fees for services, sales, donations, investment income, special events income, and income from commercial ventures. In general, over the last few decades, the proportion of private donations has decreased, and program service fees have become the nonprofit sector's largest source of revenue. Over the past several years, government revenues in absolute terms have increased slightly, mainly fueled by Medicare and Medicaid payments to hospital and other health-care providers; but they have decreased for social and legal services, for arts and culture, and most substantially for civic, social, and fraternal organizations.

The existence of a vibrant nonprofit sector is a necessity – to give expression to citizen concerns, to hold governments accountable, to promote community, to address unmet social needs, and generally to improve the quality of life. The story of Maine is in great measure the story of these vibrant organizations; and I hope to shed some light this evening on the importance of this sector to the State of Maine.

The Tradition of Nonprofit Service in Maine

The nonprofit sector in Maine is large and diverse, and fills a number of significant roles: as tools for community building, fostering civil society, and

strengthening the social fabric of our communities. The development of the nonprofit sector in Maine has a deep and rich connection to religious, economic, and social movements within the state, and as a reflection of larger movements within our nation. The society and culture which Mainers have put together has

been characterized as one aimed at linking the material and the spiritual in harmony while achieving a modest independent competency of life. Mainers have been described as the “forgotten children” of the French and English empires, left behind after the French and Indian Wars and the American Revolution in a state often considered a place apart from the mainstream of American society.

Mainers are considered a hardy people who persist largely through their own ingenuity in a region of abundant natural resources, in what can be a harsh, uninviting climate. The image of Maine, as both a “Vacationland” and a frontier removed from the national mainstream, has influenced the development of the State and our efforts to manage the tides of population growth, inflation, commercialization, individual competitiveness, and social polarization.

The role of individuals in nonprofit service in Maine was alive and well long before the institutional concept came to exist. Before the formalization of the nonprofit sector, education and healthcare services were often undertaken by religious institutions: to teach, to nurse the sick; to care for orphans and the elderly; to feed the hungry; and to respond to emergencies. There has also been the connection to humanitarian movements, as charitable groups developed in the state to address the impact of the industrial revolution, the abolition of slavery, waves of immigration, and persistent poverty.

The history of Maine is, in many ways, the history of the nonprofit sector. It is the story of a sector that has reflected the growing importance within the state of community standards, the infrastructure needed to make good on social commitments, the promise of education, the needs of immigrants, and the economic and social values of our land and waters. Nonprofit organizations also give expression to a wide variety of artistic, religious, cultural, ethnic, and social expressions that add richness to community life.

These organizations helped foster social capital, the bonds of trust and

reciprocity that seem to be crucial for a democratic polity and a market economy to function. In them, Mainers affirm their belief in humanity by providing services to thousands of their fellow citizens every year, day in and day out. In Maine, the nonprofit sector encompasses an enormous range of organizations engaged in education, health care, research, the arts, religion, the environment, civil rights and human service.

Employers of Significance

Nonprofit organizations are not only critical service providers to Maine's communities, but also a major force in the state's economy and in the economies of the state's regions. The economic significance of the nonprofit sector as a source of jobs and wages is often overlooked when we consider economic development, as well as education and training efforts. Greater understanding of the economic contributions and the impact of the nonprofit sector throughout the state of Maine is critical to understanding the immense stake that Maine's citizens have in this sectors' continued health.

In 2000, there were a total of 1,809 reporting charitable nonprofits in Maine. In addition to the reporting 501(c)(3)'s, there were over 2,500 small charitable nonprofit organizations registered with the IRS but not required to file, including booster clubs, local PTA's, youth soccer, and numerous other small organizations. Their expenditures in 2002 totaled some \$4.6 billion, representing fully 12 percent of the gross state product. This is significantly higher than the national average of 7.8%. In that year, Maine's charitable nonprofits held \$7.9 billion dollars in assets, almost a three-fold increase since 1990 (\$2.8 billion); and Maine's nonprofits paid \$3.5 billion in payroll income.

As a contributor to Maine's economic engine the Nonprofit sector represents almost 12% of total employment in the state, or approximately one out of every eight workers and over 14% of total private employment in the state. This puts Maine, significantly above the U.S. average in terms of the nonprofit share of total employment – 11.8% versus 7.2%.

Nor is nonprofit employment restricted to anyone region in Maine; rather, it is found in every county throughout state. Like Maine's population, however, most of the state's nonprofit employment is located in the urban areas. Sixty two

percent of Maine's nonprofit employment is located in four counties: Androscoggin, Cumberland, Kennebec and Penobscot. Cumberland County, with the state's largest city of Portland, employs 28 percent of the states nonprofit workers. Twenty three percent of the states nonprofit employment (approximately 17,000 workers) is located in the more suburban counties including Hancock, Knox, Lincoln, Waldo, and York. The remaining 15 percent is located in the more rural counties, including Franklin, Oxford, Aroostook, Somerset, and Washington. Nonprofit organizations play a critical role in Kennebec and Hancock counties, accounting for nearly 20 percent of total private employment.

The nonprofit sector in the state employs nearly three times as many people as state government; almost three times as many people as the state's transportation industry and its wholesale trade industry; more than twice as many workers as the state's construction industry and its finance, insurance and real estate industry in total. Finally, the nonprofit sector employs more people than all local governments

combined; and almost as many people as the state's entire manufacturing sector.

The nonprofit sector also accounts for the lion's share of private employment in a number of key fields. This includes over 97% of all private hospital employment; over 96% of higher education employment; over 90% of elementary and secondary education employment; close to three quarters of all private residential care and individual and family service employment; and over half of all private child day care employment.

Health service organizations represent 19% of all nonprofit organizations, but account for nearly half of all of Maine's nonprofit jobs. Health services organizations include hospitals, nursing and personal care facilities, and home health care organizations; and employ almost 35,000 people, representing 49.7 percent of total nonprofit employment.

The areas of social and human services make up the largest proportion of Maine's reporting nonprofits (33%), and represent 28% of all nonprofit jobs in Maine. These include employment in individual and family services, job training and related services, child day care services, residential care, youth development,

and disaster relief. (almost 10 percent greater than the nation, at 18%).

Sixteen percent of all nonprofit organizations in the state are involved in educational services – including elementary and secondary schools, colleges and universities – and represent 11 % of all nonprofit employment in Maine (as opposed to 15 % nationwide). Twelve percent of these organizations are in the arts, culture, and humanities but account for only one percent of all employment in the state (as contrasted with 4% nationwide). Overall, the distribution of nonprofit employment in Maine is similar to the national average, although Maine has a larger share of nonprofit employment in social services and a smaller share in health, education and the arts.

As a Reflection of our Environment.

We are a state often short on resources, and long in the belief that being removed from the national mainstream serves only to strengthen our resolve to maintain the social fabric of our communities.

On the face of it, Maine appears to be the third most rural state in United States, with 55% of its citizens living outside Census-designated urban areas. In terms of population density, Maine has a scant 36 people per square mile. Like many rural areas, communities in Maine face more than a few obstacles:

- Rural per capita income is 24% below urban income;

- 56% of the state's poor live in rural areas;

- 60% of Maine's unemployed live in rural areas;

The elderly represent the fastest-growing segment of Maine's rural population; it is projected that by 2020 Maine will have the fifth largest percentage of population 65 and older; and.

While 76% of Maine's rural adults have completed high school, just 40% of these adults have any post-secondary education.

For all this, Maine ranks 4th in the nation in the number of nonprofits per capita. The high ratio reflects a number of factors – as a relatively poor state with dispersed populations, often far from the service centers – there is a significant demand for social services, a niche that has been filled by nonprofit providers.

In 1960, 24% of Mainers earned an income below the poverty line. The household poverty rate for Maine as a whole stood at 10% in 1996 and at 11.5% as of the Census 2000 report. The combination of regional poverty and rural isolation, unemployment and an aging population places a high demand on the services traditionally provided by nonprofit organizations in the state. In addition, the recent Poverty in Maine Report issued by the Margaret Chase Smith Center for Public Policy identified one of the most striking features of poverty in Maine as the large proportion (45%) of below-poverty households that consist of people living alone.

Funding, Volunteerism and Philanthropy

We cannot talk about the nonprofit experience in Maine without addressing the realities of funding, volunteerism, and philanthropy. Private giving and volunteerism have long been vital parts of Maine life, and the lifeblood of the third sector in the state. In 1999, 9 percent of the total revenues for reporting nonprofits in Maine were contributions from individuals, corporations, and foundations. The major source of revenues, 91 percent is generated on the basis of user fees and charges, government support and investment income. Our nonprofits do not subsist on government largess. True, some nonprofits receive government grants and contracts; but most use a variety of funding mechanisms to support their operations. Vital as it is, direct

government funding accounted for less than 28 percent of nonprofit income in 2000. In terms of individual giving, Maine is often portrayed as ranking near the bottom nationally. The average charitable contribution of those who itemize deductions was \$2,181 in Maine, almost \$1,000 less

than the national average. Yet, the percent of income – 2.9% - is only slightly less than the national average of 3.5%; and Maine is tied with Vermont for the highest percentage of total income contributed to charities among New England states. While we may contribute less in total dollars, we do contribute a higher percentage of our income to charities than all New England states but one!

And we find other ways to contribute to the success of nonprofits. Our state is fortunate that the percentage of adults who volunteer is significant; our citizens are involved in both sustained volunteer work (mentoring, coaching, hospice, firefighting, etc.) and episodic work (walkathons, clean up days, playground construction, and food drives as examples.)

In 2000:

- 48% of high school students in the state said they volunteered in their schools or communities;

- 8,165 citizen volunteers served as mentors, teachers, water quality monitors, and safety educators and members of fire departments.

- 34 private consultants contributed at least 10 hours annually to advise and assist small volunteer service organizations across Maine, as part of the Maine Service Exchange;

- 22 volunteer projects were carried out by 991 youth in conjunction with Martin Luther King Day.

Results of the 2001 Citizen Survey conducted by the Maine Development Foundation found that fully 39% of all survey respondents assisted in public schools or community organizations which assist youth; 27.3% contributed their time towards organizations which assist the needy; 13% of Maine's citizens contribute voluntary efforts to environmental organizations; and 22% volunteer in organizations which assist the elderly.

Among civic leaders in Maine, a discussion on the future of corporate

philanthropy in the state has been sparked by the increasing number of Maine companies which have merged or been purchased by national corporations in recent years. This transformation – from an economy that was largely owner-occupied 20 years ago, to one governed increasingly by distant corporate owners – has created some apprehension in the nonprofit community that absentee owners will be less responsive to the unique needs of Maine and its nonprofit organizations.

In concert with the discussion of absentee ownership and its impact on the philanthropic community, is the recognition that total corporate giving has shown a steady decline in donations relative to profits.

The nonprofit sector, in Maine as throughout most of the United States, is comprised overwhelmingly of small, community-based entities with relatively meager resources; and in the world of organizations, size can matter. Large nonprofit organizations have the luxury of addressing issues in ways that mirror formal corporate practices: they provide health care benefits and annual leave, upgrade computer systems, consider the child care needs of employees, pay the

utility bills, and most importantly, see to it that there is someone to shovel the walkway and parking lot when it snows.

The reverse is true for smaller nonprofit organizations. Like their Maine predecessors, they are undaunted in overcoming every obstacle, because they believe so deeply in the work they are doing: if they fail, people may suffer. Facing those people every day, they do not take much vacation time because the staff is not large enough to provide coverage for client services. They worry about making payroll and paying for the electricity. They cannot afford the time or cost for professional development, accept-cast off computers, and have a sign-up sheet for shoveling the snow. The vast majority of the nonprofit organizations in Maine are the latter, and not the former.

What Lies Ahead?

And what lies ahead are diverse pressures, including political and economic forces affecting the growth rate, strength, and viability of Maine's nonprofit organizations. While assets of nonprofit organizations in the State of Maine have grown from \$2.8 billion in 1990 to 7.9 billion in 2002, as my colleague Charlie Colgan noted in an earlier Lecture, the principal problem associated with prosperity is keeping it.

In 2000, the average nonprofit human service provider operated with a 3 percent cushion—enough to tide the typical provider over for about three weeks. Two in five human service providers operated in the red, and most groups had little

slack in their budgets to meet unexpected demands or emergencies. The demand for services has increased, and revenues are down; the nonprofit sector in Maine is once again under pressure to do more with less. Unlike the federal government, the nonprofit sector cannot disguise deficits; and unlike the private sector, it cannot easily streamline itself by simply eliminating unprofitable product lines.

The commitment to mission is at once the nonprofits' greatest strength and weakness. Mission gives nonprofit employees the energy to keep going under trying circumstances, at low pay, in often under-funded and under-equipped organizations. On the other hand, the commitment to mission can invite exploitation and futility. Nonprofit organizations are often willing to skip paychecks, cut supply and training budgets, defer needed maintenance and hiring, and even sell capital assets, to keep the mission alive. Despite the important contributions nonprofit organizations make to the State of Maine, these organizations find themselves today in a time of testing. The third sector in Maine has experienced a significant fiscal squeeze, not only in the decline of actual dollars from federal and state government, but also in the form this funding takes.

Government grants and contracts, which provide assistance directly to the nonprofit service providers are giving way to vouchers and tax expenditures. Since 1996, 70 percent of all federal support to nonprofit organizations has taken the form of such consumer-side subsidies. While vouchers maximize the choices for the recipients, nonprofit organizations steady stream of funding becomes more uncertain as possible clients chose among options for service provision.

In addition, the rise of managed care in health and social service fields has added to the competitive and financial pressures on nonprofits. Private philanthropy has not kept pace either with the growth of the overall economy or the nonprofit sector. Giving has declined steadily as a share of personal income, and the recent recession of 2000-2002 has reversed the asset growth nonprofit organizations saw in the late 1990s.

Nonprofit organizations also face increased competition from for-profit firms that have entered fields once dominated by the nonprofits. Fields such as rehabilitation services, mental health services, home health, hospice care, and childcare have seen increased competition in part from the growth in the government's consumer-type payments. In the face of increased competition, nonprofit organizations in Maine also confront rising pressures to demonstrate their effectiveness. Earlier notions of the inherent trustworthiness of nonprofit organizations have given way to a pervasive accountability environment in which performance must be proved. In response, organizations like United Way of America have launched elaborate efforts to establish performance measures for its funded agencies, and a new venture philanthropy model has taken root, encouraging grant funders to insist on measurable results.

Futurist Atul Dighe suggests that the historically unique demographic, technological, and cultural transformations facing the United States have special implications for America's nonprofit organizations, because of their

commitment to innovation, their vulnerability to shift in other sectors, and their involvement in many of the fields such as health care and education where the pace of change is especially fast. Among the forces shaping the future of the nonprofit sector in Maine, perhaps the easiest to predict are the demographic. America is being transformed into a country where a majority of its citizens will be non-Euro-Americans by the middle of the 21st century. This transformation has significant implications for Maine as well. We need look no farther than the communities of Portland and Lewiston Auburn to understand the important roles nonprofit organizations play in the areas of refugee resettlement programs.

Longer life expectancies are also producing a more complex mix of social commitments. As the population of Maine ages, we face the continued loss of many of our younger citizens throughout much, if not most of Maine. Family structures are more diverse and complex, as traditional models of families are increasingly replaced by an array of living arrangements and as families look for alternatives to traditional family responsibilities such as child care, adult day care, transportation needs and after school supervision.

These shifts have immense implications for nonprofit organizations in Maine. As a result, many nonprofit organizations will play vital roles in creating community in a context of ethnic diversity, and will stand to benefit from the growing need for elder services and family support functions.

Technological change also seems likely to create challenges as well as opportunities for nonprofit organizations in Maine. As secondary education moves increasingly towards a more expansive learning model, nonprofit educational institutions will push the boundaries of classroom walls and traditional service delivery mechanisms rethinking what time and distance means for learning.

New technologies are likely to transform medical care. New care models will engage our thinking about the way we provide for the newest and oldest members of our state. New diagnostic tools may enable those with chronic long term care needs to remain more independent with the support of nonprofit health care providers.

The Internet is increasingly facilitating new forms of social activism that can empower non-profit advocacy on a statewide if not national level. The recent campaign to abolish bear baiting was one lead by nonprofit animal welfare organizations whose utilized the internet to launch petition drives, arrange public meetings and connect volunteers and funders.

Maine citizens also reflect the profile of volunteers across the United States. The majority of adults volunteer five or fewer hours per month, and there is a growing shift of volunteers away from sustained involvement in a specific community program to episodic volunteering with a shorter commitment to a greater variety of charitable organizations. The nonprofit sector may be vulnerable to the lack of steady growth in philanthropic contributions, but also to civic disengagement, especially among lower income people. Outside of religious congregations, the participation of the less well off in community associations and in the political process is more limited than for those who are more affluent. This participation level poses a major challenge as involvement in civic activities increases with education and income.

Nonprofit organizations are also facing market pressures to work more effectively. Applying the business model of the for-profit sector to the nonprofit arena may be a good thing; but one must use caution in their application. For, community, rather than business oversight, may be a more appropriate goal in a sector where building communities through shared efforts, and not the bottom-line of profit is the objective.

Creative and realistic solutions to the social problems of community require a realistic understanding of the role and capacity of nonprofit organizations. As the demand for alternative service delivery and an enhanced expectation of the role of nonprofit providers grow, we must first acknowledge both the strengths and limitations of nonprofits. As a nation, we have clung for a quarter century now to the notion of an independent, charitable social safety net that is able to offset decreased government support for social services. This myth has persisted, as nonprofits are expected to become less dependent on a shrinking government sector and more businesslike, lean, efficient, and effective.

Some Recommendations

In this time of constant change, then, how might we, the people of Maine, envision the future of this critical sector – one that represents so much of what is important to this state? I have four suggestions that I will leave you with to consider:

The first is to strengthen incentives for corporate/nonprofit collaborations or partnerships. This could involve an action as simple as a corporate sponsor sending a check to a nonprofit, or as complex as sharing corporate facilities or executives with a nonprofit organization. Strategic collaborations could be encouraged where private firms realize benefits while advancing social welfare, such as in the sponsorship and donation of equipment and products; or, commercial collaborations that are designed to increase revenue for both the private entrepreneur and the nonprofit organization. This effort must also extend to municipal and state agencies, and involve the exploration of

partnership agreements with nonprofit organizations, using the current state/university partnership model as a basis.

The second recommendation addresses the serious shortage of resources needed to succeed by a significant number of nonprofit organizations in Maine. Internal capacity building cannot occur when the utilities need to be paid. In 2000 there were 266 foundations in Maine with total assets of over \$792 million and whose giving totaled over \$46 million. The collective strength of these foundations could be harnessed to establish an incentive fund for nonprofit organizations throughout Maine enabling them improve internal and external communication, increase training, enhance technology, support professional skill development, initiate new collaborative efforts and undertake strategic planning. Organizations such as the Maine Community Foundation, The Maine Association of Nonprofits, the Maine Development Foundation and the Maine Philanthropy Association could partner in this effort as well.

The third recommendation focuses on the importance of gathering both data and the contextual stories regarding the nonprofit environment in Maine. An effort should be undertaken to produce a “state of the nonprofit state” report, to more fully understand and address the host of challenges facing the state’s private, nonprofit organizations.

My final recommendation addresses the need to increase the awareness of the sector's importance as a partner in the delivery of social services, as builders of social capital, and as major contributors to the economic welfare of Maine, by seeking a Governor's Summit to address the sustainability of the nonprofit sector. A number of important information gathering initiatives have been undertaken by the Governor's office; and among the variety of Maine economic sectors being examined, none is more deserving of this level of attention than the third sector in Maine.

Thank you.

Educated at Florida International University, Dahlia Bradshaw Lynn is Associate Professor of Public Policy and Management at the Muskie School of Public Service, where she serves as chair of our Public Policy and Management Program. Dr. Lynn's teaching and research interests include civil service reform, human resource management, collaborative leadership, and faith-based social service delivery. Her most recent publications include the editorship of a symposium on human resource management in nonprofit organizations for the Review of Public Personnel Administration; and she is soon to have a book chapter published by Jossey Bass as part of an edited volume on the evolution of public personnel systems. Dr. Lynn's background also includes 15 years of practice in the field of human resources, and service on numerous nonprofit boards of directors.

1. Charitable organizations with over \$25,000 in gross annual receipts who must file with the Internal Revenue Service.