



The Massachusetts Nonprofit Sector:

AN ECONOMIC PROFILE



MassINC

THE MASSACHUSETTS INSTITUTE FOR A NEW COMMONWEALTH
Publisher of *CommonWealth* magazine

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MARCH 2005

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Dear Friend:

We are proud to present *The Massachusetts Nonprofit Sector: An Economic Profile*, a MassINC report made possible through the generous support of the Mellon Charitable Giving Program/Alice P. Chase Trust and the Boston Foundation and in partnership with the University College of Citizenship and Public Service at Tufts University.

The nonprofit sector is tightly woven into the civic life of our communities, touching the lives of all residents of the Commonwealth. In this report, we find that nonprofits also contribute substantially to the economy of the Bay State, employing over 420,000 people, or more than 13 percent of the workforce, well above the national average. The nonprofit sector is larger than most industries in Massachusetts and also outnumbers the entire public sector.

In recent years, the nonprofit sector has been one of the few bright spots in the state economy, adding over 33,000 jobs, an increase of nine percent, in a time of overall employment decline. However, these overall findings mask the diversity found in the nonprofit sector, which ranges from our leading universities and health care institutions to the myriad of small community organizations. Different parts of the sector face different challenges. It is our hope that this report will initiate more debate about ways to strengthen further this vital part of our state's future.

This report brings together four partners: MassINC, Mellon New England, the Boston Foundation, and the University College of Citizenship and Public Service at Tufts University. For each partner, this research adds to their work on the nonprofit sector, while also sparking new questions and additional areas for further engagement.

For MassINC, this economic profile is the latest product of our Economic Prosperity Initiative, which aims to understand and promote economic opportunity for middle-class families in a rapidly changing world. The report also builds on our long-standing investment in workforce development and family economic security.

For Mellon New England, this report is intended to help the community understand the changing nature of philanthropy. At the cutting edge of corporate philanthropy, Mellon New England focuses on adding value to the work of its hundreds of nonprofit partners through analysis and financial rigor. Mellon New England seeks to help create a stronger, more diverse and more accountable nonprofit sector that sets new standards for delivery of tremendous social benefits.

For the Boston Foundation, this report marks an important juncture in its campaign to build awareness of the fundamental contributions of the nonprofit sector to the Greater Boston economy and to help the sector address its challenges. As the region's leading community foundation, the Boston Foundation is a proud partner in Boston's great history of nonprofit innovation and leadership, and it provides resources to help these organizations adapt to changing times.

For the University College of Citizenship and Public Service at Tufts, this research reflects its commitment to applying university resources to community needs. The University College will continue its efforts to build effective partnerships between nonprofit organizations, state and local government, foundations, and academic centers.

We also owe a special debt to MassINC's deputy research director Rachel Deyette Werkema, the report's lead author, and to the many outside reviewers who invested their time and effort in giving us valuable comments. Tufts University's James Jennings also helped shape our thinking through his probing questions and strong engagement. We would also like to draw our readers' attention to his forthcoming analysis on the special challenges facing community-based nonprofits.

Finally, we gratefully acknowledge the support of Blue Cross Blue Shield of Massachusetts in the printing of this report. We would also like to recognize the important contributions of MassINC research director Dana Ansel and research associate Greg Leiserson in the development of this report.

Sincerely,



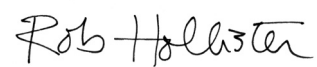
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TABLE OF CONTENTS

Introduction	5
Key Facts	6
Building a Profile	7
What is a Nonprofit?	8
A Leading Industry in Massachusetts	9
A Source of Employment Growth	12
The Nonprofit Workforce	13
Educational Attainment	13
Occupation	14
Income	14
Homeownership	16
Basic Demographics: Race and Ethnicity, Gender, Age, and Nativity	17
Residence	17
Profile of Nonprofit Organizations	18
Number and Growth of Organizations	18
Program Areas	20
Geographic Distribution of Nonprofits	22
Income and Assets of Nonprofits	23
Finances by Program Area	25
Nonprofit Revenue	27
Concluding Thoughts	29

About Mellon New England

Mellon New England and its nearly 2,500 employees represent the Boston-based businesses of Mellon Financial Corporation. Through its Charitable Giving Program, Mellon New England plays an active role making our communities better places to live and work. Since 1997, the program has invested more than \$20 million in support of over 200 Boston-area community groups.

About the Boston Foundation

The Boston Foundation, one of the nation's oldest and largest community foundations, has an endowment of almost \$650 million, made grants of \$51 million to nonprofit organizations, and received gifts of \$41 million last year. The Boston Foundation is made up of 750 separate charitable funds, which have been established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a civic leader, convener, and sponsor of special initiatives designed to build community. For more information about the Boston Foundation and its grant making, visit www.tbf.org or call 617-338-1700.

About the University College of Citizenship and Public Service at Tufts University

The University College of Citizenship and Public Service at Tufts University works with faculty, students, staff, and alumni in each of Tufts' eight schools to infuse the skills and competencies of Active Citizenship throughout Tufts' curriculum and activities. The mission of the University College is to support the whole University in producing committed public citizens and leaders who will take an active role in addressing the challenges of communities throughout their lifetimes, whatever professions they may choose. This uniquely comprehensive, university-wide civic education initiative operates student programs, faculty programs, alumni programs, and community partnerships.

Printing services generously donated by Blue Cross Blue Shield of Massachusetts.

INTRODUCTION

From the world-renowned medical centers, institutions of higher education, museums, and performing arts organizations to the small, community-based organizations engaging citizens on a daily basis, it is difficult to imagine the Commonwealth without its nearly 25,000 nonprofit organizations, a number that continues to grow each year.¹ Nonprofits contribute substantially to the economy of the Bay State, employing more than 420,000 people, or over 13% of the workforce—nearly twice the national rate of 6.9%.² Moreover, in recent years, the number of jobs in the nonprofit sector has grown while overall employment across the state has fallen. Nonprofits hold state government contracts worth more than \$2.5 billion, delivering social services on behalf of the Commonwealth to thousands of Massachusetts residents.³ Collectively, nonprofit organizations pump close to \$50 billion into local economies throughout the state each year through salaries, purchases of goods and services, and other expenditures.⁴ This diverse sector is a major presence in some of Massachusetts's key industries. Nonprofits are also increasingly seen as taking on important civic leadership roles in the state.

Massachusetts has been a leader in the historical development of educational and medical institutions, industries that are filled with nonprofits today. For instance, the state is home to Harvard University, the oldest institution of higher learning in the country. In health and medicine, major hospitals such as Massachusetts General Hospital and Children's Hospital have been at the cutting edge of scientific advance-

ment for over 150 years. Major performing arts organizations include the internationally known Boston Symphony Orchestra and Boston Ballet. Today, these large nonprofits and others are among the businesses which represent the state in the nation's eye.

In addition to the role played by larger organizations, smaller nonprofits are tightly woven into the life of our communities. They sponsor youth

NONPROFITS EMPLOY OVER 13% OF THE MASSACHUSETTS WORKFORCE.

activities, sports leagues, cultural events, and education and training programs, organizations that unite citizens with common goals and provide a conduit for community action. Nonprofits welcome immigrants, often in their native languages, and help them settle into their new lives. They care for our sick and homebound. They offer emergency shelter, food, and financial assistance for families who have fallen on hard times. In these areas, Massachusetts nonprofits also operate with distinction. The annual Walk for Hunger, organized by Project Bread to combat hunger in Massachusetts, is the oldest continuous pledge walk in the nation. In short, the sector is integral to the quality of life of all residents of the Commonwealth.

The nonprofit workforce is even more highly educated and professionalized than the generally high-skilled Massachusetts workforce. Many of these workers report to large employers like

1. Our counts of nonprofits are restricted to those organizations that fall under section 501(c)(3) of the tax code. The National Center for Charitable Statistics (NCCS) reports 24,536 501(c)(3) organizations in Massachusetts registered with the Internal Revenue Service as of April 2004.

2. Unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

3. Jennings, James (2005). *Nonprofits, State Government, and Foundations in Massachusetts: Where Do We Go From Here?* Tufts University College of Citizenship and Public Service.

4. National Center for Charitable Statistics (2004). *NCCS Data Web*. <http://nccsdataweb.urban.org/FAQ/index.php?category=44>

hospitals and universities, but a sizeable number work for one of the small-budget organizations that numerically dominate the nonprofit landscape. Nonprofit institutions differ in terms of size, program area, target population, mission, finances, and age, to name a few characteristics. Many of the best-known nonprofits are large, established institutions, and in fact, over a third of the state's 25 largest private employers are nonprofit institutions.⁵ Yet the typical nonprofit operates on a much smaller scale, and with a much smaller budget. Nearly half of all nonprofit organizations report annual income under \$100,000, a stark contrast to the high-profile nonprofits with budgets in the tens or even hundreds of millions of dollars.⁶ And though some of the state's oldest nonprofit organizations date back

to the 17th century, in fact, the majority of nonprofits are young, with nearly three-quarters of organizations less than 25 years old. This extraordinary diversity contributes to confusion about the nonprofit sector and may mask the extent of its role in the Massachusetts economy.

In this report, we aim to document the sector's reach throughout the Commonwealth. This profile first examines the economic scope of the nonprofit sector, detailing employment statistics for nonprofit institutions and demonstrating the significance of nonprofits in specific industries. Next, it describes the nonprofit workforce, looking at the skills, income, and basic characteristics of the people who work at nonprofits. Lastly, it builds a profile of nonprofit organizations, examining the number and growth of institutions, the

KEY FACTS

- Nonprofits employ 13.4% of the total Massachusetts workforce, nearly twice the U.S. average of 6.9%.
- From 2000 to 2003, nonprofit employment in Massachusetts grew by 8.6% despite an overall decline in the state's employment base of 4.1%. Of the three major sectors—public, for-profit, and nonprofit—the nonprofit sector alone reported an increase in employment over this time period.
- Massachusetts has the highest percentage of nonprofit workers of any major industrialized state. Massachusetts ranks fourth in share of nonprofit workers, behind Washington, D.C., Vermont, and North Dakota.
- In 2003, the nonprofit workforce of 420,671 outnumbered most industries in Massachusetts, including manufacturing, retail trade, construction, finance and insurance, and biotechnology.
- Nonprofits employ more people than the entire public sector—federal, state and local government combined—in Massachusetts.
- Nonprofit employment is highly concentrated, with 85% of nonprofit workers employed in one of three industries: health care, educational services, and social services. Health care alone employs 51% of the state's nonprofit workforce.
- 57% of nonprofit employees are college graduates, compared with 37% of all workers in the state.
- Over 67% of nonprofit workers in Massachusetts hold professional or managerial positions, compared with 41% of all workers.
- Nearly three-quarters of the state's nonprofits are less than 25 years old. In fact, one-fifth of Massachusetts nonprofits initially filed with the IRS since 2000.
- Median individual income for nonprofit employees in Massachusetts is \$900 less than that for the state's workforce as a whole: \$30,700 vs. \$31,600. However, the nonprofit sector is diverse in composition, with some fields well below—and above—the median.
- The majority of Massachusetts nonprofits have relatively small budgets, with over 60% reporting annual income under \$250,000 and nearly half reporting annual income under \$100,000.
- Nonprofit income and assets in Massachusetts are highly concentrated in a handful of organizations. The top 1% of organizations report 65% of total nonprofit income and hold nearly 80% of the sector's \$137 billion in assets.

5. Boston Business Journal (2002). *2003 Book of Lists*.

6. NCCS (2004).

program areas in which they operate, their geographic distribution throughout the state, and their finances.

Some of our findings challenge widely held perceptions about the nonprofit sector, while others confirm common understandings of nonprofits. While many think of nonprofits primarily as beneficiaries of a one-way flow of donations, our research documents that these organizations are full-fledged participants in the state's economy, employing hundreds of thousands of workers and providing valuable goods and services. We discover that, contrary to popular perception, nonprofit workers' incomes generally keep pace with the incomes of the overall workforce; however, there is substantial variation in pay among different industries, with some, especially social assistance, confirming their reputations as low-paying fields. What emerges is a portrait of a highly diverse sector that follows national patterns in some respects and counters them in others. We also find some intriguing differences across program areas and organization size, highlighting the need for different strategies to address the range of challenges faced by different types of organizations.

Building a Profile

Building a profile of the nonprofit sector is a challenging task. Because no single data set contains all the necessary information, we use data from three separate sources in this study. In order to analyze nonprofit employment statistics, worker characteristics, and organizational

characteristics, we combine data from the Massachusetts Division of Unemployment Assistance, the U.S. Census, and the National Center for Charitable Statistics. While this approach introduces a few data challenges (described below), it allows us to construct a comprehensive profile of the nonprofit sector, answering important questions about the size and characteristics of the nonprofit workforce as well as investigating the differences and disparities among nonprofit organizations.

First we analyze the size and composition of nonprofit employment, including changes over time. These data on the economic scope of the nonprofit sector come from the Massachusetts Division of Unemployment Assistance and are drawn from the Covered Employment and Wages (ES-202) program.⁷ This report represents the first time that these data have been publicly reported for Massachusetts.⁸ These records provide estimates of the number of employees in the nonprofit sector as a whole as well as their distribution across industries. We present employment data from 2000 through 2003.

We also present a profile of nonprofit workers. The characteristics of the nonprofit workforce are calculated based on the 2000 U.S. Census long form questionnaire.⁹ The Census data allow us to compare educational attainment, occupational status, income, residence, and basic demographics of nonprofit workers with the overall workforce.

Lastly, we examine the characteristics of nonprofit organizations. This information comes from a third source, the National Center for Charitable

7. We thank the staff of the Massachusetts Division of Unemployment Assistance for supplying these unpublished data from the ES-202 program. All employers, except for religious congregations, are required to complete the ES-202 quarterly surveys as part of the unemployment insurance system. Some religious congregations do opt to participate.

8. The Center for Civil Society Studies at Johns Hopkins Universities has pioneered the use of these data for several other states through its Nonprofit Employment Data project. We thank Stephanie Lessans Geller and Lester Solomon for their valuable suggestions and feedback.

9. We thank Roy Williams and Michael Goodman of the Donahue Institute at the University of Massachusetts for expert assistance in supplying the Census data.

Statistics (NCCS) public database. These data, based on IRS records, provide details on nonprofit program areas, finances, location, and age. We primarily use data based on April 2004 IRS filings.

Because we rely on different data sources, we confront a few challenges in putting together this profile. The ES-202 employment data are *establishment* data, reported by employers. Nonprofit employers are identified through a specific ownership code on the ES-202 reports. In con-

trast, the Census data on nonprofit employees rely on individuals who identify themselves as working for a nonprofit. As would be expected, these numbers do not exactly match. In using *self-reported* data such as the Census, there is a risk that employees may misclassify themselves, not realizing that they do, in fact, work for a nonprofit organization or mistakenly thinking that their employer is a nonprofit. Therefore, the counts of nonprofit employees differ between these two

WHAT IS A NONPROFIT?

Economic establishments in the United States fall into one of three categories: the public sector or government sector; the for-profit private sector; and the not-for-profit private sector. This last category is what we know as the nonprofit sector. Nonprofits are distinct from for-profit organizations in several ways. First, they are tax-exempt organizations, as defined by the IRS. Incorporating as a nonprofit allows an organization to receive exemptions from federal and state income taxes and in some states, including Massachusetts, property and sales taxes. There are 25 categories of tax-exempt organizations, with the largest number of organizations falling under section 501(c)(3) of the tax code. These nonprofits are the focus of this report.

501(c)(3) organizations include two types of organizations: public charities and private foundations. There were 20,345 registered public charities and 4,191 registered private foundations in Massachusetts as of April 2004. Not all of these nonprofits file tax returns. About 50% of public charities and 71% of private foundations in the state filed tax returns in 2004. Registered nonprofits and filing nonprofits differ in number for a couple of reasons. First, not all nonprofits are required to file Form 990. IRS rules require that all tax-exempt organizations with more than

\$5,000 in annual gross receipts register with the IRS, but only those nonprofits with annual gross receipts of more than \$25,000 are required to file Form 990. Churches, religious schools, and religious organizations are also exempt from the filing requirement. Second, some nonprofits may have ceased operations, and the records do not yet reflect that they have closed.

There are advantages and disadvantages to using each total as the “official” number of nonprofits. Counting only filers excludes small and religiously-oriented nonprofits that opt not to submit tax returns, while counting registered nonprofits runs the risk of including some organizations that are no longer active. In this report, we use the number of registered organizations in most of our analysis of the sector’s composition, though we restrict our analysis of financial characteristics to those organizations filing Form 990, as tax returns are the source of financial data.

Public charities provide services for the general public interest, but they are private, self-governing organizations. While some of these nonprofits reflect standard notions of “charity,” such as homeless shelters and food pantries, the public charity category also includes institutions like Bay State Medical Center, Tanglewood, Tufts Univer-

sity, the Trustees of Reservations, and religious congregations. Public charities serve a wide range of purposes and constituents.

Private foundations, which also fall into the 501(c)(3) category, distribute money to public charities or individuals, and they, too, vary considerably in size and purpose. This category includes multi-million dollar foundations and trusts as well as tiny grantmaking organizations founded to advance very specific causes. Although we include private foundations as part of the nonprofit sector in this study, they fulfill a very different role, in many cases actually using their resources to finance the public charities that comprise the rest of the sector. The Office of the Attorney General in Massachusetts regulates both private foundations and public charities.

Unlike for-profit businesses, tax-exempt organizations are not permitted to distribute excess revenues or “profits” to company owners or shareholders (hence the name “nonprofit”). However, public charities that fall under section 501(c)(3) are permitted to accept tax-deductible contributions from individuals and corporations, the only nonprofits eligible for this benefit. These nonprofit organizations face some limits on their legislative lobbying activities but not an outright ban.

sources, but the ES-202 data are considered to be the more reliable of the two sources.

Another complication arises from the fact that the ES-202 employment data are classified by industry according to the North American Industrial Classification System (NAICS), while the NCCS data rely on a different classification system, the National Taxonomy of Exempt Entities (NTEE), to categorize organizations by program area (see sidebar). These industry codes and program areas are not perfectly comparable, complicating any attempts to link employment statistics to program areas. For example, the *education program area* accounts for nearly 18% of all Massachusetts nonprofit organizations, while the *educational services industry* accounts for 25% of all Massachusetts nonprofit employment. However, because of definitional discrepancies, one cannot combine these statistics to calculate an average number of employees per education nonprofit or even assume that all educational services employees work at organizations that would be identified as education nonprofits by the NTEE.

Despite these minor complications, combining these three data sources provides a thorough and new examination of the nonprofit sector in Massachusetts. By drawing on all of them, we are able to capture, to the fullest extent possible, the contributions and characteristics of nonprofit organizations and the nonprofit workforce.

A LEADING INDUSTRY IN MASSACHUSETTS

The nonprofit sector in Massachusetts is one of the state’s leading employers. According to data from the Massachusetts Division of Unemployment Assistance, nonprofits employed 13.4% of the state’s workforce in 2003 and accounted for more than 1 in 7 private sector workers in the Commonwealth (420,671 workers). This proportion far exceeds the overall U.S. share of 6.9%

NAICS Industry Codes

Canada, Mexico, and the United States developed the North American Industrial Classification System (NAICS) after the adoption of the North American Free Trade Agreement in the early 1990s in order to provide a common language for economic statistics in the three countries. Industries and subsectors of industries are defined by codes up to six digits long, with the longer codes defining a more detailed field. The 20 major industries, or “super sectors,” are identified by two-digit codes; examples include manufacturing, finance and insurance, and educational services. Longer codes break down the major industries into their subsectors; for example, health care and social assistance is a major industry, assigned NAICS code 62, but its components include ambulatory services (NAICS code 621), hospitals (code 622), nursing and residential facilities (code 623) and social assistance (code 624). In this research, we primarily use the major industries as the unit of analysis, but we make use of three-digit subsectors in a few industries where nonprofit employment is heavily concentrated.

Nonprofits can and do operate in many of these industry categories.

CODE	MAJOR INDUSTRY
11	Agriculture, Forestry, Fishing and Hunting
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative, Support, Waste & Remediation Services
61	Educational Services
62	Health Care and Social Assistance
621	Ambulatory Health Care Services
622	Hospitals
623	Nursing and Residential Care Facilities
624	Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
813	Religious, Grantmaking, Civic & Professional Organizations
92	Public Administration

NTEE Program Areas

The National Taxonomy of Exempt Entities Core Codes were created by the National Center for Charitable Statistics to provide a detailed classification scheme for nonprofit organizations based on their function. In this profile we primarily use the 10 broad categories, identified by Roman numerals, but also make use of some of the 26 major groups, identified by letters, for more detailed analysis.

I. ARTS, CULTURE, AND HUMANITIES (A)

II. EDUCATION (B)

III. ENVIRONMENT, ANIMALS

- C. Environmental Quality, Protection & Beautification
- D. Animal Related

IV. HEALTH

- E. Health—General & Rehabilitative Services
- F. Mental Health, Crisis Intervention
- G. Health—Multipurpose Associations/Services Associated with Specific Diseases/Disorders/Medical Disciplines
- H. Medical Research

V. HUMAN SERVICES

- I. Public Protection: Crime & Delinquency Prevention, Legal Administration, Legal Services
- J. Employment/Jobs
- K. Food, Nutrition, Agriculture
- L. Housing/Shelter
- M. Public Safety, Disaster Preparedness & Relief
- N. Recreation, Leisure, Sports, Athletics
- O. Youth Development
- P. Human Services: Multipurpose & Other

VI. INTERNATIONAL/FOREIGN AFFAIRS (Q)

VII. PUBLIC/SOCIETY BENEFIT

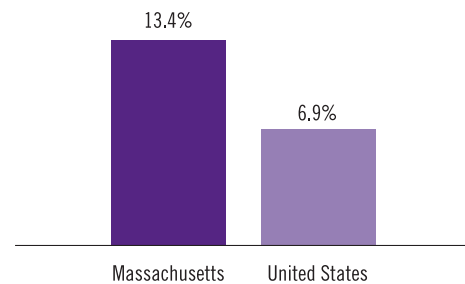
- R. Civil Rights, Social Action, Advocacy
- S. Community Improvement/Capacity Building
- T. Philanthropy, Voluntarism, & Grantmaking Foundations
- U. Science and Technology Research Institutes/Services
- V. Social Science Research Institutes/Services
- W. Public/Society Benefit: Multipurpose & Other

VIII. RELIGION (X)

IX. MUTUAL AND MEMBERSHIP BENEFIT (Y)

X. NONCLASSIFIABLE ORGANIZATIONS (Z)

FIGURE 1: Nonprofit Share of Total Employment, Massachusetts and the United States



Source: Unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research (2003); Center for Civil Society Studies at Johns Hopkins University (2002). *Nonprofit Employment Data Project*. <http://www.jhu.edu/ccss/research/employ.html>

and places Massachusetts among the highest tier of states in terms of nonprofit labor force presence (Figure 1). The 2000 U.S. Census ranked Massachusetts fourth among all states in share of workers employed at nonprofits, behind only Washington, D.C., Vermont, and North Dakota (Table 1). The Bay State ranks ninth in total size of its nonprofit workforce, compared with its thirteenth-place ranking in overall workforce size. Massachusetts also outranks all other large industrial states as well as all of its economic competitor states in share of the workforce accounted for by nonprofits.¹⁰

The nonprofit workforce outnumbers employment in most industries in the state, including retail trade, manufacturing, finance and insurance, and construction (Figure 2). Nonprofits also employ more people than the entire public sector—local, state, and federal government employees—in Massachusetts.

This large number of nonprofit workers is heavily concentrated in a handful of industries. Over 85% of nonprofit employees work in just a few select fields: health care, social assistance,

10. Our economic competitor states, identified by the Massachusetts Technology Collaborative, include California, Colorado, Connecticut, Minnesota, New Jersey, and New York. We also include North Carolina in this group.

TABLE 1: State Rankings, Share of Nonprofit Employees in the Workforce, 2000

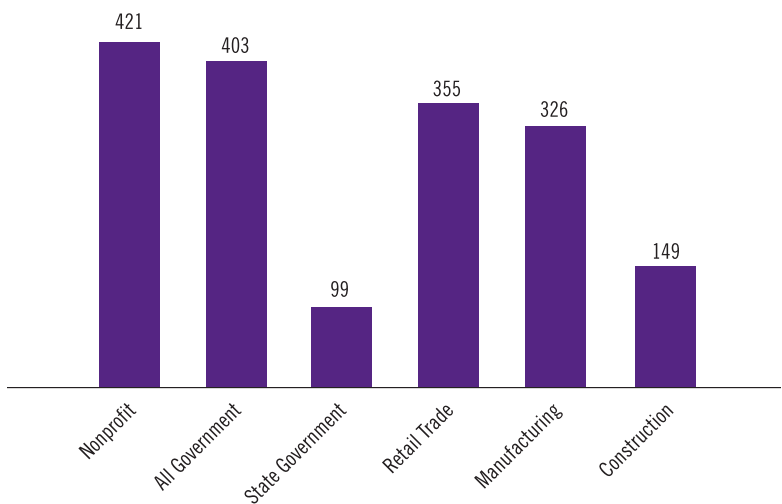
RANK	STATE	RANK	STATE	RANK	STATE
1	DC	18	New Hampshire	35	Oklahoma
2	Vermont	19	Connecticut	36	Utah
3	North Dakota	20	Nebraska	37	Wyoming
4	Massachusetts	21	Wisconsin	38	Tennessee
5	Rhode Island	22	Michigan	39	Arkansas
6	Pennsylvania	23	Ohio	40	Idaho
7	Maine	24	Kansas	41	California
8	New York	25	Oregon	42	Texas
9	South Dakota	26	Delaware	43	Alabama
10	Minnesota	27	Washington	44	Florida
11	Alaska	28	West Virginia	45	Louisiana
12	Missouri	29	New Mexico	46	North Carolina
13	Maryland	30	Kentucky	47	Arizona
14	Illinois	31	Virginia	48	Georgia
15	Montana	32	Hawaii	49	Mississippi
16	Iowa	33	New Jersey	50	South Carolina
17	Indiana	34	Colorado	51	Nevada

Note: States highlighted in bold print are the economic competitor states for Massachusetts.
 Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

and educational services (Figure 3). Health care alone accounts for over half of all nonprofit employment. Another quarter of nonprofit employees work in educational services, while about a tenth work in social assistance. Only one other field—religious, grantmaking, civic, and professional organizations—accounts for at least 5% of nonprofit employment.

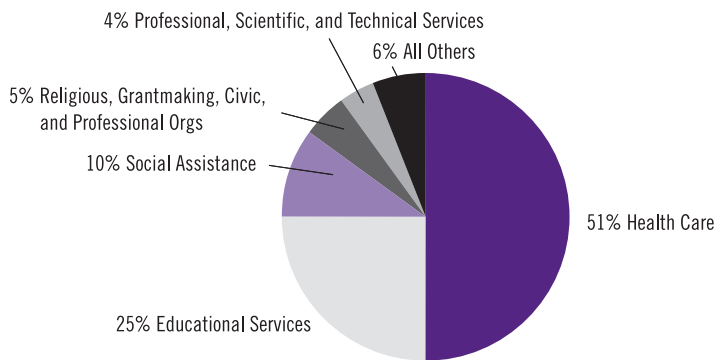
While these fields are traditionally associated with nonprofits, their dominance of nonprofit employment in Massachusetts is striking. Health care and education are two of the state’s largest industries across all sectors—public, private for-profit, and private nonprofit—but they hold a highly disproportionate share of nonprofit employment (Figure 4). For example, health care is the largest industry statewide, but its 12% share of total employment is a far cry from its 51% share of nonprofit employment. Educational serv-

FIGURE 2: Massachusetts Employment in Nonprofits, Government, and Selected Industries*, 2003 (thousands)



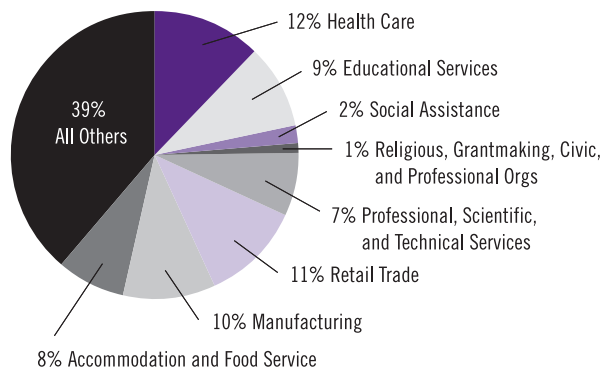
* Nearly every industry in Massachusetts includes both nonprofit and for-profit businesses. The industries selected for comparison here have a very low share of nonprofit employment so double counting is minimized and comparison between ownership sector and industry is meaningful.
 Source: Published and unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

FIGURE 3: Distribution of Nonprofit Employment in Massachusetts by Industry, 2003



Totals may not sum to 100% due to rounding.
 Source: Unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

FIGURE 4: Distribution of Total Employment in Massachusetts by Industry, 2003



Totals may not sum to 100% due to rounding.
 Source: Unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

ices, another major industry in Massachusetts, accounts for 9% of the state’s workforce, well below its 25% share of nonprofit workers.

Another way of looking at the significance of nonprofits is to examine the relative employment composition of different industries (Figure 5). Health care, with more than 380,000 total

employees, draws nearly 56% of them—over 213,000—from nonprofit establishments. Over 85% of hospital employees (a sub-sector of the health care field) work at nonprofit facilities. Educational services, the state’s fourth-largest industry, draws over one-third of its nearly 300,000 employees from nonprofits. Looking just at *private* sector education workers (e.g., excluding public school personnel), the nonprofit share of employment rises to almost 90%. The arts, entertainment, and recreation industry, though not as dominant statewide, counts a healthy 15% of its workers from nonprofits. In addition, over a quarter of the workers in the state’s knowledge sector industries—including information, finance, professional, technical, and scientific services, health care, education, and social services—work at nonprofit institutions.¹¹

A SOURCE OF EMPLOYMENT GROWTH

In recent years, the nonprofit sector has emerged as one of the few bright spots in the state’s employment picture. From 2000 to 2003 nonprofit employment grew by 8.6%, despite an overall decline of 4.1% in statewide employment. Nonprofits reported an increase of 33,325 jobs while the state reported a cumulative loss of 132,823 positions over this time period (Table 2). Indeed, the nonprofit sector was the *only* sector to add jobs over the past three years.

Within the nonprofit sector, employment growth trends vary. Some of the fastest growth rates appear in smaller nonprofit fields. For example, professional, technical, and scientific services, which accounts for just under 4% of nonprofit workers, posted three-year employment growth of more than 31%. However, each of the

11. The knowledge sector is composed of the following industries: information; finance, insurance, and real estate; professional, technical, scientific, administrative, and management services; and education, health, and social services. These correspond to NAICS industry codes 51, 52, 53, 54, 55, 56, 61, and 62.

TABLE 2: Nonprofit and Total Employment in Massachusetts, 2000-2003

SECTOR	2000	2003	PERCENT CHANGE, 2000-2003
Nonprofit Employment	387,346	420,671	8.6%
Total Employment	3,275,104	3,142,281	-4.1%

Source: Published and unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

“major” nonprofit fields of health care, education, and social assistance reported respectable growth rates of around 7%. Employment in arts, entertainment, and recreation increased by 4%, while civic and religious nonprofits saw employment jump by more than 10%.

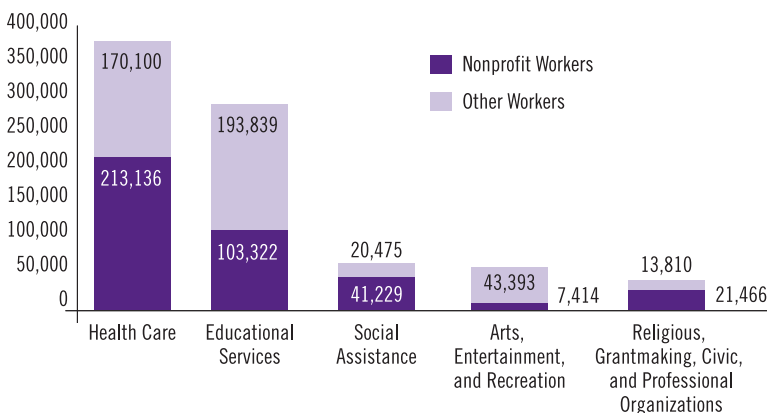
THE NONPROFIT WORKFORCE

The nonprofit workforce is highly skilled and stands out from the overall workforce in several ways. In general, nonprofit workers are more likely to have a college degree, hold a professional or managerial job, and hail from another state. Nonprofit workers also compare favorably with the overall workforce in terms of income and homeownership. However, it is important to keep in mind the considerable variation within the nonprofit sector, especially with respect to pay levels. While workers in some nonprofit industries outperform the sector as a whole, those in other fields lag behind.

Educational Attainment

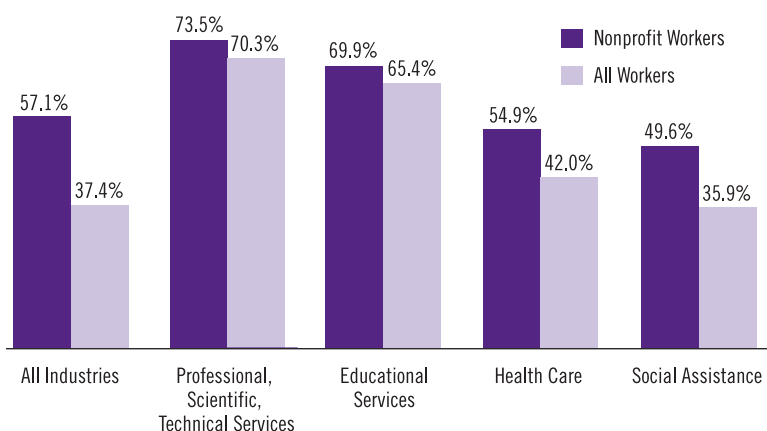
In a state where educational attainment levels are among the highest in the country, nonprofit employees represent an elite workforce. Nonprofit workers are 52% more likely to hold at least a bachelor’s degree, with 57% reporting this level of educational attainment compared with 37% of all workers (Figure 6). Though educational attainment levels have risen across the workforce

FIGURE 5: Nonprofit Share of Total Employment in Selected Industries in Massachusetts, 2003



Source: Unpublished data from the ES-202 program, Massachusetts Division of Unemployment Assistance, Economic Research.

FIGURE 6: Share of Workers with at Least a Bachelor's Degree, All Workers and Nonprofit Workers, for Selected Industries in Massachusetts

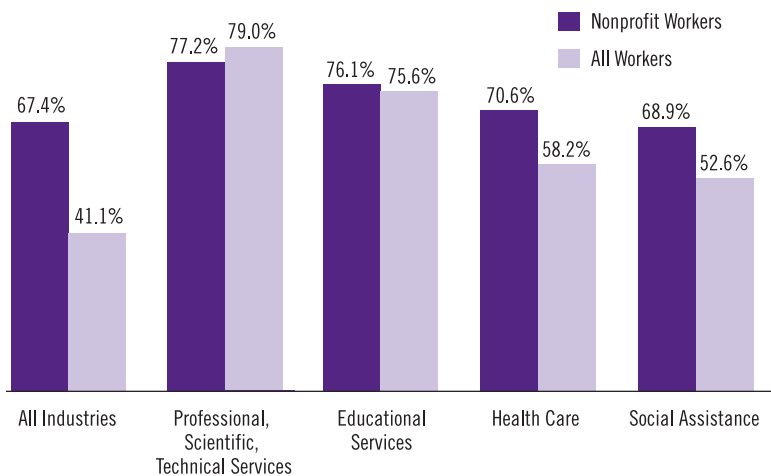


Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

since 1990, the educational differential enjoyed by Massachusetts nonprofit workers held steady throughout the decade. In 1990, 51% of nonprofit workers had completed at least a bachelor’s degree, compared to 31% of the workforce as a whole.

Educational attainment rates vary by industry, as does the educational gap between nonprofit and other workers. The most highly educated industry across the entire workforce (and in the non-

FIGURE 7: Share of Professional and Managerial Positions, All Workers and Nonprofit Workers, for Selected Industries in Massachusetts



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

profit sector) is professional, scientific, and technical services. The educational skill differences in this field are slight, as over 73% of these high-skilled service workers in the nonprofit sector hold at least a bachelor’s degree, about three percentage points above the 70% rate for the field as a whole. Educational services also counts large numbers of college graduates in its workforce, with nearly 70% of nonprofit workers, compared

OVER ONE-QUARTER OF WORKERS IN THE STATE’S KNOWLEDGE SECTOR INDUSTRIES WORK AT NONPROFITS.

to 65% of all workers, holding a college degree.

Educational differences are more pronounced in two other major nonprofit fields, health care and social services. Nearly 55% of nonprofit health care workers hold at least a bachelor’s degree compared to 42% for the entire industry. In social assistance, about 50% of nonprofit workers are college graduates, nearly 14 percentage points higher than the industry’s overall rate of 36%.

Occupation

The occupational mix of nonprofit workers is tilted toward more highly skilled positions, with two-thirds holding a managerial or professional position, well above the 41% rate throughout the entire workforce (Figure 7). This gap has actually widened slightly since 1990, when 56% of nonprofit workers were classified as managers or professionals, compared to 32% of all workers.

Not surprisingly, the fields with high concentrations of managers and professionals mirror those with relatively high numbers of college graduates. The two fields with the highest concentrations of professionals and managers are professional, scientific, and technical services and educational services. As with educational attainment, the differences in these industries between nonprofit workers and all workers are minimal—at least three-quarters of employees in these industries hold a professional or managerial job, regardless of whether they work for a nonprofit or not.

However, the differences between nonprofit workers and the workforce as a whole are more pronounced in health care and social assistance. In health care, about 71% of nonprofit employees hold managerial or professional jobs, compared to 58% industry-wide. Among social assistance workers, the disparity is even greater, with professional and managerial positions accounting for 69% of nonprofit jobs in the field, well above the 53% rate for all social assistance positions.

Income

While nonprofit work comes with a reputation for lower pay, it appears that nonprofit workers generally keep pace with the rest of the workforce. The typical nonprofit worker’s individual income trails the statewide median by less than \$1,000 (Figure 8). Nonprofit median personal

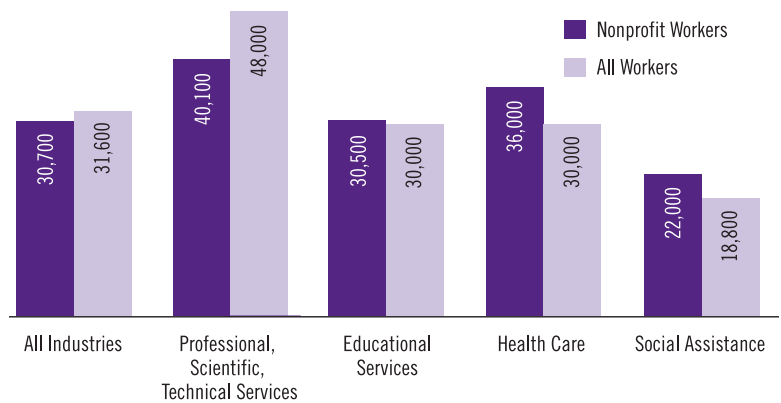
income of \$30,700 is just slightly below the median personal income of \$31,600 for all workers (public sector employees report the highest median individual income, \$37,000). Compared to 1990, nonprofit workers have narrowed this income gap by nearly one-half. Median personal income for all workers rose 5.5% in inflation-adjusted dollars, from \$29,961 in 1990 to \$31,600, but nonprofit workers saw an 8.8% increase, from \$28,215 to \$30,700.

In the nonprofit sector's three largest industries of health care, educational services, and social assistance, nonprofit workers actually report higher incomes than their respective industry medians. Education workers in the nonprofit sector see only a slight (\$500) increase over the pay of all educational service personnel, but social assistance workers in the nonprofit sector receive a 17% premium over the field's overall median income, and health care workers report a median income 20% higher than the industry median. This is likely due in part to the higher education levels and the higher shares of professionals and managers in the nonprofit sector of these industries.

This nonprofit pay premium does not hold across all fields, though. For example, the typical nonprofit worker in professional, technical, and scientific services actually earns 16% less than the industry median, despite nearly identical shares of professionals and managers and a higher share of college graduates for nonprofits in this field. And even in industries where nonprofit workers do enjoy a pay premium, the boost in income cannot mask the low pay of some fields.

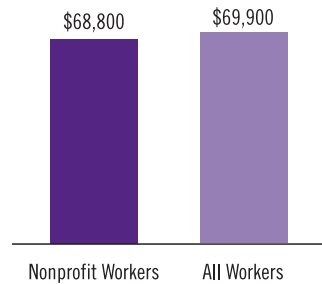
Across industries, there is a considerable degree of variation in income for nonprofit workers. As might be expected, the nonprofit industry with the highest educational attainment, professional, scientific, and technical services, reports

FIGURE 8: Median Individual Income, All Workers and Nonprofit Workers, for Selected Industries in Massachusetts (Income in 1999 Dollars)



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

FIGURE 9: Median Household Income, All Workers and Nonprofit Workers in Massachusetts (Income in 1999 dollars)

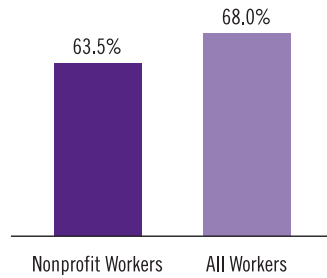


Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

the highest median income (\$40,100). Health care workers also fare quite well, with the typical employee reporting an income of \$36,000. However, this relationship between education and income is not a perfect one. Educational services, another field with highly educated workers, reports median income of \$30,500, slightly below the nonprofit median.

A more striking case is that of social assistance workers, who also report relatively high levels of education but have a median personal income of just \$22,000. In other words, the typical nonprofit worker in social service fields holds at least

FIGURE 10: Homeownership Rates, All Workers and Nonprofit Workers in Massachusetts



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

a four-year college degree but earns nearly 30% less than other nonprofit workers. While nonprofit social assistance workers do appear to have an income advantage over other social assistance workers, social assistance is a low-paying field, regardless of sector. This points to specific challenges in staff recruitment, retention, and turnover for nonprofits operating in this field.¹²

The household income of a typical nonprofit worker, \$68,800, is just slightly under the state median of \$69,900 for all workers and places nonprofit households firmly in the middle of the state’s household income distribution (Figure 9). This gap is slightly smaller than in 1990, when

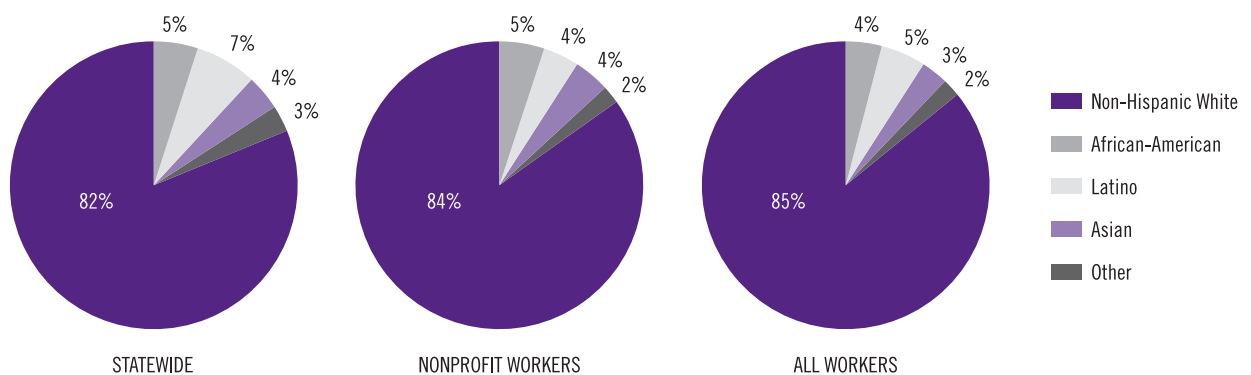
median household income of nonprofit workers trailed median household income for all workers by just under \$1200.

Homeownership

About 64% of nonprofit workers are homeowners, only a few percentage points behind the 68% homeownership rate of the entire workforce (Figure 10). Nonprofit workers have made considerable progress on homeownership since 1990, when just 58% were homeowners. In contrast, the homeownership rate for all workers rose less than one percentage point over the decade.

Taken together, these statistics on income and homeownership counter a common perception that raising a family, owning a home, and enjoying a middle-class standard of living are impossible feats on a nonprofit salary. To be sure, choosing to working at a nonprofit organization may involve some financial tradeoffs, particularly for the highly skilled, college-educated workers who might command higher salaries elsewhere. These financial tradeoffs are especially pronounced for workers in traditionally low-paying fields such as social services. However, in terms

FIGURE 11: Racial/Ethnic Composition of the State, Workforce, and Nonprofit Workforce in Massachusetts



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

12. A forthcoming report from Tufts University, focused on smaller, community-based nonprofits and human service providers with government contracts, addresses these issues in more detail. See Jennings, James (2005).

of attaining and affording a middle-class lifestyle, nonprofit workers in general appear to be holding their own.

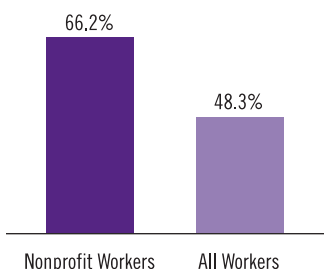
Basic Demographics: Race and Ethnicity, Gender, Age, and Nativity

In terms of racial and ethnic composition, both the overall workforce and the nonprofit workforce are less diverse than the population of the state, though the share of whites has fallen and the share of workers of color has increased since 1990. Nonprofits employ slightly lower percentages of whites and Latinos and slightly higher percentages of African-Americans and Asians than the workforce as a whole (Figure 11).

The nonprofit workforce stands out from the rest of the workforce more for its gender composition. While men make up a slim majority (51.7%) of the total workforce, two-thirds of nonprofit workers are women (Figure 12). This gender concentration is slightly stronger than in 1990, and as the number of women in the workforce has grown, a greater percentage of them have chosen employment in the nonprofit sector. This high proportion of women working in nonprofits may be linked to the increased likelihood of part-time work for nonprofit workers (Figure 13). Although a majority (58%) of nonprofit employees work full-time, full-year schedules, part-time hours are more common in this sector of the economy (42% vs. 37%).

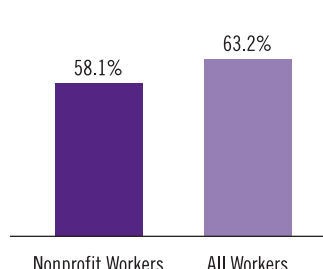
Nonprofit workers are a little older than the overall workforce, with a median age of 41 years old compared to 39 for all workers (Figure 14). Nonprofits are also more likely to employ transplants to Massachusetts (Figure 15). Although a majority (52%) of nonprofit employees were born

FIGURE 12: Share of Females in the Workforce, All Workers and Nonprofit Workers in Massachusetts



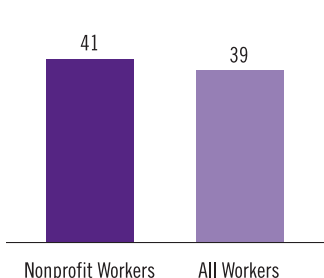
Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

FIGURE 13: Share of Full-time Workers, All Workers and Nonprofit Workers in Massachusetts



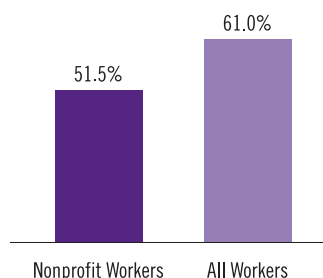
Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

FIGURE 14: Median Age of Workforce, All Workers and Nonprofit Workers in Massachusetts



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

FIGURE 15: Share of Workforce Born in Massachusetts, All Workers and Nonprofit Workers in Massachusetts



Source: U.S. Census, 5% Public Use Microdata Sample, 2000.

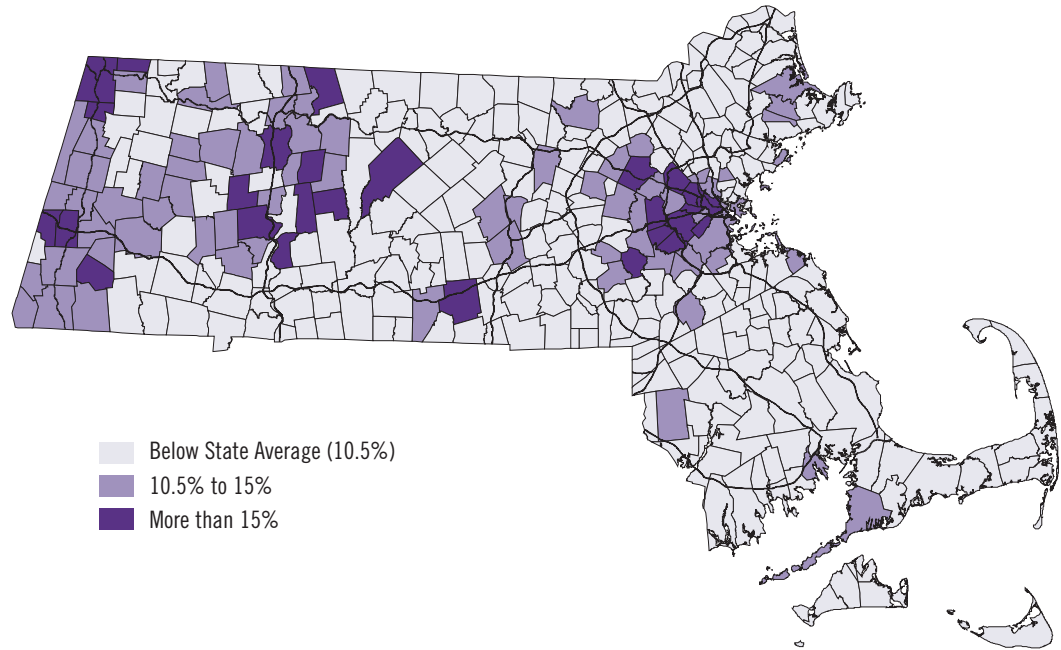
in Massachusetts, the overall workforce counts 61% of its employees as Bay State natives. Thus, nonprofits may be a critical partner in the state's efforts to attract workers from other parts of the country, particularly if these workers move to Massachusetts for job opportunities.¹³

Residence

While many nonprofit employees live in one of the state's urban centers—Boston, Worcester, and Springfield are all among the 10 Massachusetts communities with the largest numbers of non-

13. In recent years, Massachusetts has been losing workers (excluding immigrants from abroad). See Robert Nakosteen, Michael Goodman, and Dana Ansel (2003). *Mass.Migration*. MassINC.

FIGURE 16: Share of Resident Workforce Working at Nonprofits



Source: Author's calculations using data from the U.S. Census, 2000.

profit workers—the nonprofit workforce also draws heavily from many of Boston's inner suburbs. Boston and a handful of its surrounding municipalities—Cambridge, Newton, Somerville, and Brookline—account for over one-quarter (25.1%) of the state's nonprofit workforce. These communities account for a disproportionate share of nonprofit employment, given that they contribute less than 15% of the state's total workforce.

This “inner suburban” side of nonprofit employment comes more strongly into focus when comparing the proportion of city and town residents working for nonprofits (Figure 16). Cambridge leads the way, with over 30% of its working residents reporting employment at a nonprofit institution. Brookline, Belmont, Wellesley, Newton, Arlington, Somerville, Lexington, Needham, Watertown, and Milton also report high proportions of residents—at least 15%—employed by nonprofits.

Outside of the greater Boston area, the urban

centers of Worcester and Springfield and the college towns of Northampton and Amherst stand out as communities where significant numbers of nonprofit workers reside. Williamstown, Stockbridge, Petersham, and West Stockbridge are among the 10 communities with the highest proportions of residents working at nonprofit establishments, each reporting around one-fifth or more of residents as nonprofit employees. The fact that these towns have comparatively small workforces yet high rates of nonprofit employment only heightens the importance of nonprofit institutions in their local economies.

PROFILE OF NONPROFIT ORGANIZATIONS

Number and growth of nonprofits

According to 2004 records, Massachusetts was home to 24,536 registered 501(c)(3) organizations. The sector has grown steadily over the past decade, with public charities accounting for just

TABLE 3: Number of Registered and Filing 501(c)(3) Nonprofits in Massachusetts, 1999-2004

	PUBLIC CHARITIES		PRIVATE FOUNDATIONS	
	REGISTERED	FILING	REGISTERED	FILING
1999	16,707	8,653	3,265	2,478
2004	20,345	10,086	4,191	2,992
Percent Change				
1999-2004	21.8%	16.6%	28.4%	20.7%

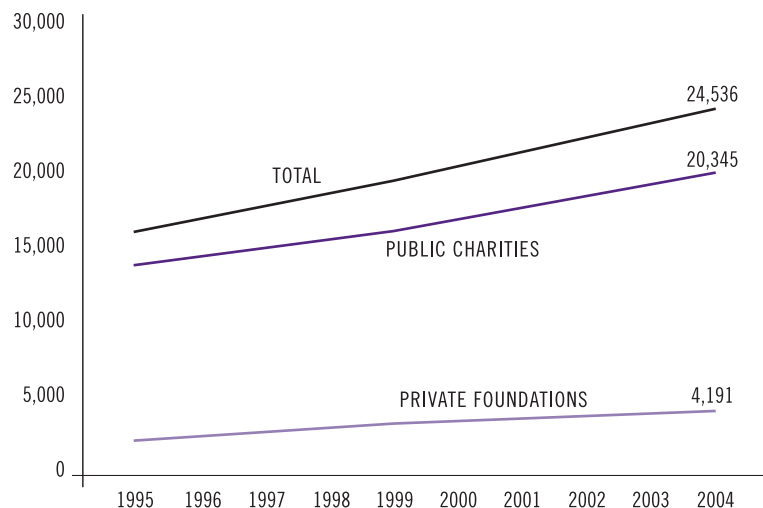
Source: National Center for Charitable Statistics.

over four-fifths of these nonprofits and private foundations comprising just under one-fifth (Figure 17). In the past five years, the share of public charities has declined slightly and the share of private foundations has risen slightly, due to a higher growth rate among private foundations than public charities (28% vs. 22%). Overall, the number of 501(c)(3) nonprofits grew by 23% statewide in the last five years.

The number of *filing* nonprofits has also grown, though somewhat more slowly than the number of registered organizations (Table 3).¹⁴ The number of Massachusetts public charities filing Form 990 increased by about 17% in the past five years, while the number of filing private foundations rose by 21%, leading to an overall increase in 990 filers of 17.5%. In 2004, about half of the registered public charities in the state filed Form 990, while about 71% of registered private foundations filed Form 990 in 2004.

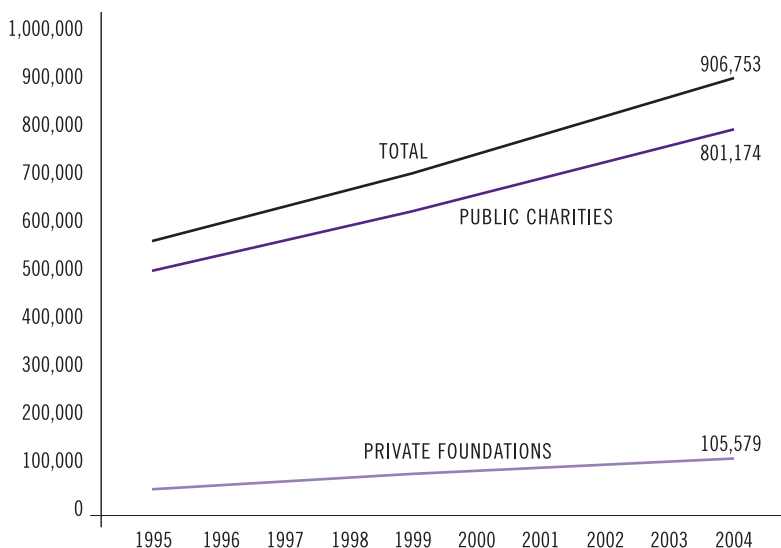
Nationally, the number of registered 501(c)(3) nonprofits stands at 906,753 (Figure 18). The mix of nonprofits at the national level is more tilted toward public charities, which account for almost 90% of the total. The five-year national growth rate of 501(c)(3) organizations of 27% is a little higher than in the Bay State. However, the nonprofit sector, as measured on a per capita basis, is larger in

FIGURE 17: Number of Registered 501(c)(3) Nonprofits in Massachusetts, 1995-2004



Source: National Center for Charitable Statistics

FIGURE 18: Number of Registered 501(c)(3) Nonprofits in the United States, 1995-2004

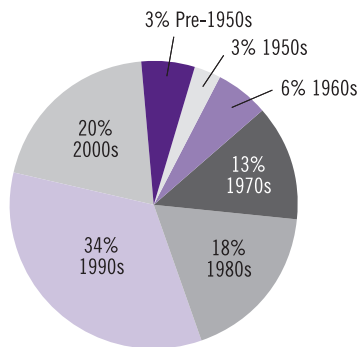


Source: National Center for Charitable Statistics

Massachusetts than across the country as a whole. Massachusetts is host to 3.8 nonprofits per 1,000 residents, 27% higher than the U.S. ratio of 3.0

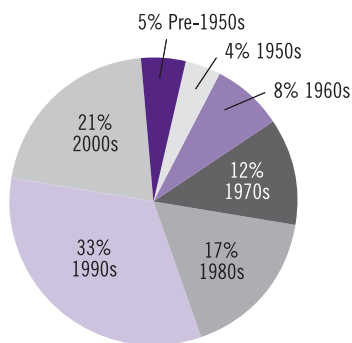
14. Recall that organizations with incomes less than \$25,000 and religious nonprofits are not required to file Form 990. Growth in these categories of nonprofits will be understated in the statistics on 990 filers.

FIGURE 19: Distribution of Nonprofits in Massachusetts by IRS Filing Date, 2004



Source: National Center for Charitable Statistics.

FIGURE 20: Distribution of Nonprofits in the U.S. by IRS Filing Date, 2004



Source: National Center for Charitable Statistics.

organizations per 1,000 people. Thus, while the nonprofit sector, measured on a per capita basis, is larger than average in the Bay State, it appears that the rest of the country is catching up.

Further evidence of substantial growth of nonprofits in recent decades comes from examining the distribution of organizations by date of filing with the IRS. “Young” organizations outnumber older nonprofits; over half of Massachusetts nonprofits were founded in the past decade and a half (Figure 19). Over one-third of nonprofits list an initial IRS filing date in the 1990s, and one-fifth

of all 501(c)(3) organizations were launched since 2000. In total, nearly three-quarters of all nonprofits are less than 25 years old. This pattern is consistent with national data (Figure 20). Nationwide, 71% of nonprofits are less than 25 years old. As with Massachusetts, one-fifth of organizations from across the country list a filing date of 2000 or later, and one-third initially filed in the 1990s.

This preponderance of relatively young organizations raises interesting questions about the life cycle of nonprofits. The high numbers of nonprofits founded in recent years could be an indication of a genuine uptick in nonprofit activity. Alternatively, it could represent churning typical of many industries, where lots of organizations are launched with high hopes each year but only a small number survive for an extended period of time. Data from the attorney general’s office show that over 600 nonprofits have dissolved in Massachusetts since 2000, though whether these were new organizations that folded after a short time in operation, older nonprofits that closed after a long tenure, or organizations that merged with others is not known.¹⁵ Future research on the births, deaths, and lifetimes of nonprofit organizations would help us to better understand these statistics and answer common questions about whether there are too many—or not enough—nonprofits.

Program areas

Universities, hospitals, and cultural organizations may hold high profiles among nonprofits in Massachusetts, but the largest category of nonprofit organizations in the state draws from another part of the sector.¹⁶ In terms of the num-

15. Personal Communication, Press Office, Office of the Attorney General, 2004.

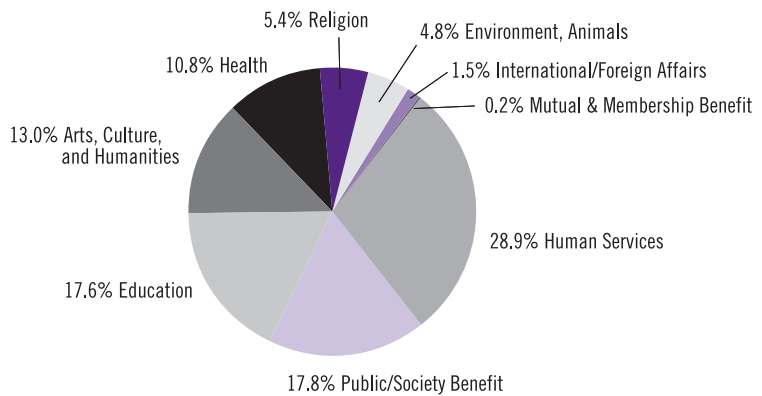
16. These categories reflect the distribution of nonprofits whose program areas are known. In 2004, nearly one-third of all 501(c)(3) organizations in the NCCS database were not categorized into a specific program area. This “unknown” category has been steadily declining as a share of all nonprofits. Five years ago, the service category of 38% of nonprofits was unknown, compared to 31% in 2004. In 1995, the share of unknowns was nearly 47%.

ber of organizations, human services is the largest program area, encompassing 29% of all nonprofits in the state (Figure 21). Public benefit organizations (17.8%) make up the second largest grouping, followed by the areas of education (17.6%); arts, culture, and humanities (13.0%); and health (10.8%). Collectively, the top five broad categories account for nearly 90% of all nonprofits in the state. The strong showing of the broad group of public benefit organizations is almost entirely driven by the subgroup consisting of philanthropic and grantmaking institutions. Statewide, this category of organizations alone makes up almost 12% of nonprofits.

The composition of the nonprofit sector has changed very little in the past five years. Every program area has experienced growth, with all broad categories posting double-digit percentage increases in the number of organizations. Some slower-growing categories have seen their share of the nonprofit sector decrease, most notably health organizations. A few medical institutions have converted from nonprofit to for-profit status in recent years, but hospital closings and consolidations and mergers in the health care industry likely explain the slower growth in the number of organizations in this field.¹⁷ Religious and spiritual organizations, public benefit institutions, and international and foreign affairs organizations have all increased their slices of the nonprofit pie due to more rapid than average growth.

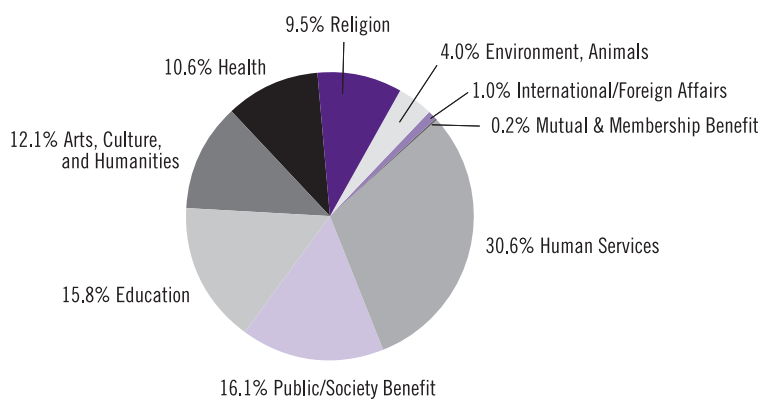
The distribution of organizations by program area in Massachusetts is quite similar to the national distribution. Four of the top five categories overlap. Nationally, as at the state level, human services accounts for the largest number of organizations, though its national share (30.6%) is slightly higher than in Massachusetts

FIGURE 21: Distribution of Massachusetts Nonprofits by Program Area, 2004



Includes all registered 501(c)(3) organizations. Source: National Center for Charitable Statistics.

FIGURE 22: Distribution of Nonprofits in the U.S. by Program Area, 2004



Includes all registered 501(c)(3) organizations. Source: National Center for Charitable Statistics.

(Figure 22). Public benefit (16.1%) ranks second nationally, followed by education (15.8%); religion (12.1%); and arts, culture and humanities (10.6%). As in Massachusetts, the public benefit program area is dominated by philanthropic and grantmaking establishments, a subgroup which makes up 10.4% of the nation's nonprofits.

At the national level, all program areas have experienced growth. The most dramatic change is in the religion category, which increased its

17. Nonprofit to for-profit hospital conversions in Massachusetts during this time period include Deaconess-Nashoba Hospital to Nashoba Valley Medical Center in 2003, and Hale Hospital to Merrimack Valley Hospital in 2001. Hospital closings include Waltham Hospital in 2003.

number of organizations by nearly 80% between 1999 and 2004. As noted above, this program area also posted one of the fastest growth rates among Massachusetts nonprofits; however, it stands out as the most obvious difference between the mix of nonprofits in Massachusetts and at the national level. The share of religious and spiritual organizations is over twice as high nationwide as it is in Massachusetts. Because religious organizations are not required to file with the IRS, speculating on the reasons behind this discrepancy is complicated. In addition, the *number* of religious nonprofits does not necessarily tell how many people are served by religious organizations. The strong presence of established religions in Massachusetts, most notably the Catholic Church, may tilt the state's religious nonprofits toward fewer, but larger, charitable institutions. The smaller nonprofits in this category that do exist may be less likely to file than those in other states, which would keep their official count in the state down. Or we may be more secular than the country as a whole.

Health organizations, one of the slowest-growing areas in both Massachusetts and the nation, saw its overall share of national nonprofit organizations drop as it slipped out of the top five. As in Massachusetts, conversions from nonprofit to for-profit status, consolidations, and closings in the health care field likely lie behind this finding.

Looking at other program areas, compared to the national distribution, Massachusetts has disproportionately high numbers of nonprofits in the public benefit, education, arts, culture, and humanities, and health areas (and, to a lesser extent, in environmental and animal and international and foreign affairs organizations). As discussed, human services and especially religious organizations have a smaller than average number of organizations in the state.

TABLE 4: Geographic Distribution of Nonprofits in Massachusetts, 2004

COUNTY	NUMBER OF NONPROFITS	NONPROFITS PER 1000 RESIDENTS	FIVE-YEAR GROWTH IN THE NUMBER OF NONPROFITS
Barnstable	1,040	4.5	24.8%
Berkshire	711	5.3	21.3%
Bristol	1,167	2.1	22.2%
Dukes	192	12.3	22.3%
Essex	2,303	3.1	27.8%
Franklin	335	4.6	22.7%
Hampden	1,148	2.5	24.6%
Hampshire	732	4.7	26.4%
Middlesex	5,646	3.8	37.8%
Nantucket	97	9.0	32.9%
Norfolk	2,411	3.7	56.6%
Plymouth	1,176	2.4	37.4%
Suffolk	4,940	7.3	14.7%
Worcester	2,200	2.8	22.0%
Statewide	24,536	3.8	22.9%

Note: County data for some nonprofits is not available, so the data at the county level may not sum to the state total.

Source: Authors' calculations using data from the National Center for Charitable Statistics and the U.S. Census.

Geographic distribution of nonprofits

Like the population of Massachusetts, nonprofits are more heavily concentrated in the eastern half of the state. In 2004, Middlesex County, the state's most populous county, was home to the largest number of nonprofits, nearly one-quarter of the state total, followed by Suffolk County, with one-fifth of organizations. Suffolk County has a high number of nonprofits given its population, but this is easily explained by the presence of Boston, the state's capital and largest city.

In contrast, the smallest counties have fewer total organizations but much greater concentrations of nonprofits (Table 4). Dukes County, home to Martha's Vineyard, has the highest per capita ratio of nonprofits statewide, with over 12 organizations for every 1,000 residents, more

than three times the statewide ratio of 3.8 nonprofits per 1,000 people. Nantucket County, the state's least populous county, ranks second with nine nonprofits per 1,000 residents. Suffolk County also has a relatively high concentration of nonprofits, at seven organizations per 1,000 residents, while Middlesex County's per capita count matches the state average of 3.8.

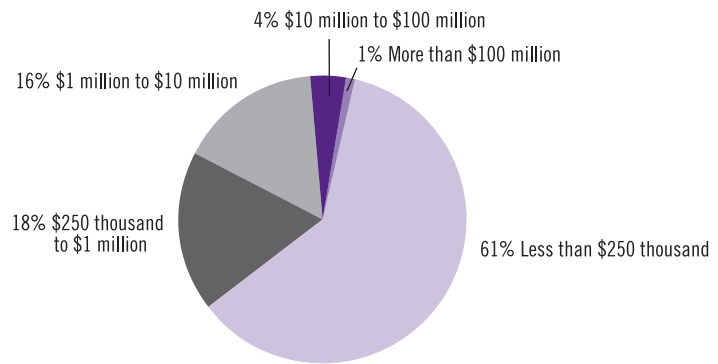
The number of nonprofits grew in every corner of the state. Suburban counties, especially those in eastern Massachusetts, led the way. Norfolk County experienced the most explosive growth rate, 57%, between 1999 and 2004; however, three other counties reported growth rates well over 30%, including Middlesex County, which saw its already high number of nonprofits increase by 38% over the past five years. In contrast, Suffolk County, the most urban of the state's 14 counties, experienced the slowest growth rate in the state.

Income and assets of nonprofits¹⁸

As a whole, the nonprofit sector holds enormous financial resources. In 2004, filing Massachusetts 501(c)(3) organizations reported over \$65 billion in income and \$137 billion in assets.¹⁹ However, in examining the finances of nonprofits, a distinct pattern emerges: the vast majority of organizations hold relatively modest resources, while a very small number of organizations control vast sums of wealth. To illustrate, the top 1% of nonprofits report about two-thirds of total income and hold nearly four-fifths of all assets.

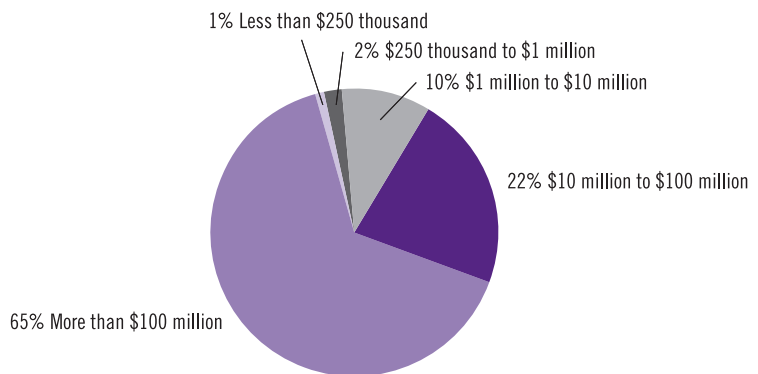
Small organizations dominate the sector in terms of numbers (Figure 23). We define small nonprofits as those with annual income under \$250,000, as this corresponds to the threshold for completing an independent audit of organi-

FIGURE 23: Distribution of Massachusetts Nonprofits by Income Level, 2004



Source: National Center for Charitable Statistics.

FIGURE 24: Distribution of Massachusetts Nonprofit Income, 2004



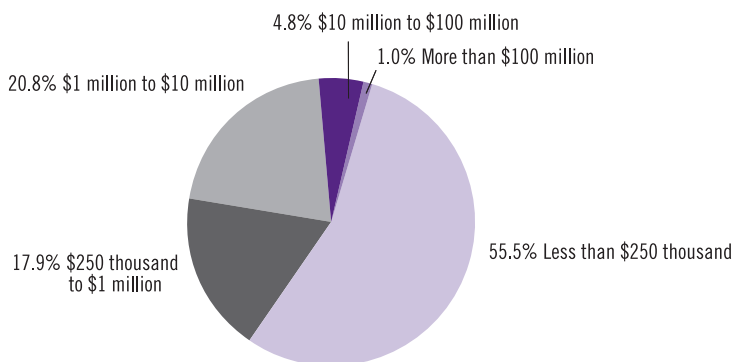
Source: National Center for Charitable Statistics.

zation finances as required by Massachusetts state law (organizations with budgets under this threshold complete a financial statement compilation). This category of nonprofits constitutes over three-fifths of 990 filers. The largest share of nonprofits run especially modest operations—nearly half of all organizations report income under \$100,000. These official statistics most certainly underestimate the total number, as the smallest of these organizations, with gross receipts less than \$25,000, are not required to

18. This section analyzes only information for Form 990 filers.

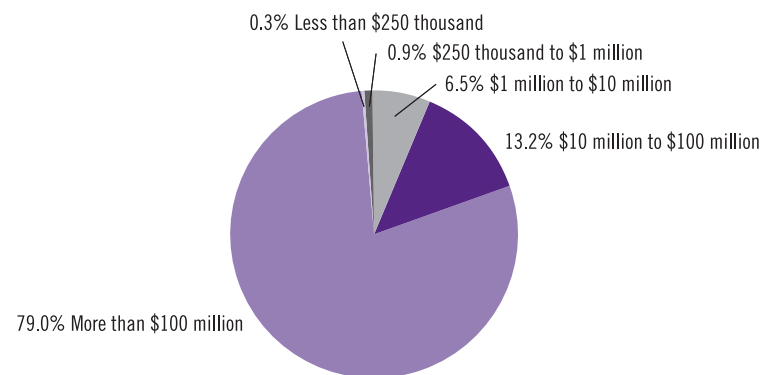
19. Nonprofit income, or gross receipts, is the sum of all incoming funds, including revenues. The NCCS calculates 5 major revenue categories: contributions, gifts, and grants; program services and contracts; investment income; net special events income; and dues, net sales, and other income. Total assets include cash and non-cash holdings, such as land, buildings, and equipment.

FIGURE 25: Distribution of Massachusetts Nonprofits by Asset Value, 2004



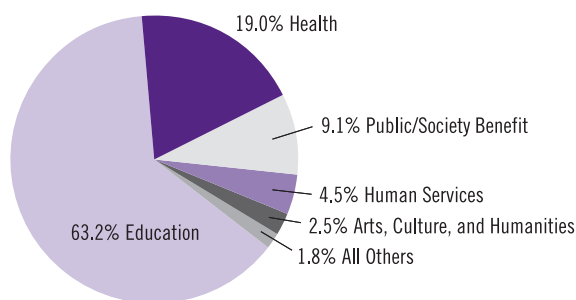
Source: National Center for Charitable Statistics.

FIGURE 26: Distribution of Massachusetts Nonprofit Assets, 2004



Source: National Center for Charitable Statistics.

FIGURE 27: Distribution of Total Nonprofit Assets by Program Area in Massachusetts, 2004



Source: National Center for Charitable Statistics.

file Form 990 and thus are not represented in these statistics.

With such small budgets, these organizations are clearly not the employment powerhouses of the sector, but even without large paid staffs, their sheer numbers represent a sizeable presence. These organizations are especially prevalent in specific program areas—arts, environment, recreation, religion, and philanthropy—that have historically played an active role in civic affairs and make important contributions to the state’s quality of life. Many of these smaller nonprofits develop and rely on strong networks of volunteers, drawing community members directly into critical work in their own backyards.

Using a somewhat higher income cutoff, nearly 80% of organizations report annual incomes under \$1 million—but they account for just 3% of total annual income reported by 990 filers. At the other end of the distribution, the top 5% of organizations, with annual incomes over \$10 million, account for almost 90% of total reported income (Figure 24). Nonprofits with the largest incomes—over \$100 million—alone account for nearly two-thirds of total reported income. Over half (50.5%) of the organizations in this large-budget category are in the health field, and close to one-third are education institutions.

The asset distribution is similarly skewed (Figure 25). Nonprofits with annual assets under \$250,000 account for over half of all 990 filers (and more than 40% report annual assets less than \$100,000). Nearly three-quarters of organizations report assets under \$1 million. By contrast, 6% of nonprofits report assets greater than \$10 million. The top 1% of organizations, those with assets exceeding \$100 million annually, account for 79% of total assets of 990 filers²⁰ (Figure 26). As with income, this top category is dominated by education (43%) and health (40%) nonprofits.

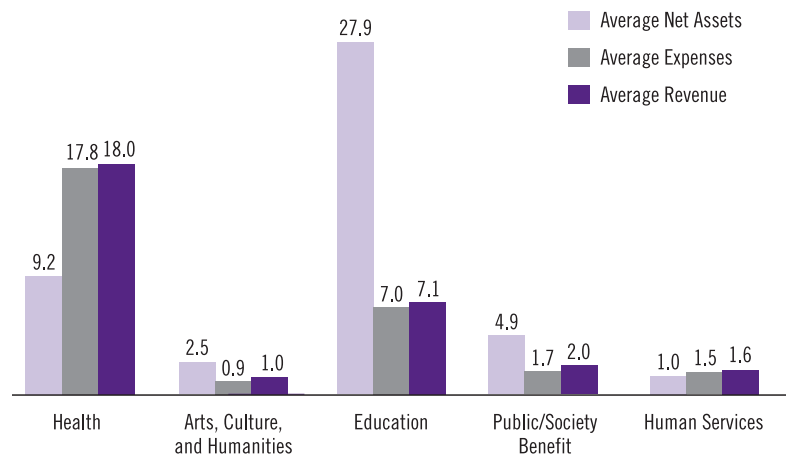
The patterns at the national level are similar, with most organizations of modest financial means and resources concentrated in a handful of organizations. Close to two-thirds of 990 filers report annual income under \$250,000, including 46% with income less than \$100,000. More than 80% of organizations report under \$1 million in annual income. In terms of assets, over 58% of organizations hold less than \$250,000 in assets, with 46% reporting fewer than \$100,000 in assets. Over three-quarters report asset holdings under \$1 million.

While smaller organizations clearly dominate the sector in terms of numbers, the fastest-growing categories of nonprofits in recent years have been the biggest-budget organizations. In Massachusetts, nonprofits with annual incomes of \$10 million and up grew by nearly 34% in the past five years, increasing their numbers at twice the rate of organizations with incomes less than \$250,000. The largest increase was seen among organizations reporting \$100 million or more in annual income, a rate of nearly 38%, while the smallest organizations, those with annual income under \$100,000, grew at the slowest rate, 15%.

Finances by program area

Nonprofit finances vary quite dramatically by program area. Assets and income are highly concentrated not only by size (discussed above) but also by program area. Taken together, education, health, and public benefit organizations control about 90% of assets for the entire sector in Massachusetts—nearly twice their share of the total number of organizations, 46.2% (Figure 27). Education is by far the wealthiest category, with 63% of total assets, no doubt reflecting the large endowments of the state’s wealthier private

FIGURE 28: Average Financial Position for Massachusetts Nonprofits in the Five Largest Program Areas, 2004 (millions of dollars)



Source: National Center for Charitable Statistics.

colleges and universities. Health institutions occupy the number two slot, holding nearly one-fifth of total nonprofit assets. The public benefit category, dominated by philanthropy and grantmak-

LARGE-BUDGET ORGANIZATIONS HAVE BEEN THE FASTEST GROWING CATEGORY OF NONPROFITS IN RECENT YEARS.

ing organizations, is the only other program area to hold a significant share of nonprofit financial wealth with 7.2% of total assets.

The disparities in resources by sector become clear with a comparative example. Human services, the largest category in Massachusetts with almost 30% of all nonprofits statewide, counts nearly three times as many organizations as the health program area. Yet health nonprofits, with 19% of total assets, hold more than four times the amount of assets as the human service sub-sector, with only 4.5% of all nonprofit assets.

20. The actual distribution of nonprofit assets and income is likely even more skewed. Recall that small nonprofits are not required to file IRS Form 990. These statistics understate the number of organizations with small incomes and asset holdings.

TABLE 5: Distribution of Massachusetts Nonprofits by Program Area and Income Level, 2004

PROGRAM AREA	LESS THAN \$250,000	\$250,000 TO \$1 MILLION	\$1 MILLION TO \$10 MILLION	MORE THAN \$10 MILLION
Arts, Culture, and Humanities	70.8%	17.7%	9.7%	1.8%
Education	62.0%	16.6%	14.3%	7.0%
Environment, Animals	66.5%	18.9%	12.2%	2.4%
Health	39.9%	15.5%	29.0%	15.5%
Human Services	55.9%	21.4%	18.9%	3.8%
Housing, Shelter*	42.0%	33.0%	23.1%	1.9%
International/Foreign Affairs	57.3%	21.0%	18.9%	2.8%
Public/Society Benefit	66.8%	17.9%	12.7%	2.6%
Religion	71.5%	18.7%	8.9%	0.9%
Total Known	59.8%	18.5%	16.5%	5.2%

*Housing/Shelter is a subcategory of Human Services.
Source: National Center for Charitable Statistics.

TABLE 6: Distribution of Massachusetts Nonprofits by Program Area and Asset Holdings, 2004

PROGRAM AREA	LESS THAN \$250,000	\$250,000 TO \$1 MILLION	\$1 MILLION TO \$10 MILLION	MORE THAN \$10 MILLION
Arts, Culture, and Humanities	66.2%	18.5%	12.1%	3.1%
Education	63.2%	13.5%	14.6%	8.6%
Environment, Animals	62.5%	13.9%	18.7%	4.8%
Health	41.2%	16.1%	28.6%	14.1%
Human Services	56.5%	16.5%	23.5%	3.5%
Housing, Shelter*	25.8%	18.1%	47.7%	8.4%
International/Foreign Affairs	63.6%	14.0%	18.2%	4.2%
Public/Society Benefit	51.5%	23.0%	21.4%	4.1%
Religion	67.7%	15.3%	15.3%	1.7%
Total Known	56.6%	17.3%	20.2%	5.9%

*Housing/Shelter is a subcategory of Human Services.
Source: National Center for Charitable Statistics.

Comparing the average financial resources per organization across the five largest program areas also reveals some striking differences (Figure 28). Educational institutions far outpace the rest of the sector on asset holdings, with the average organization reporting almost \$30 million in net

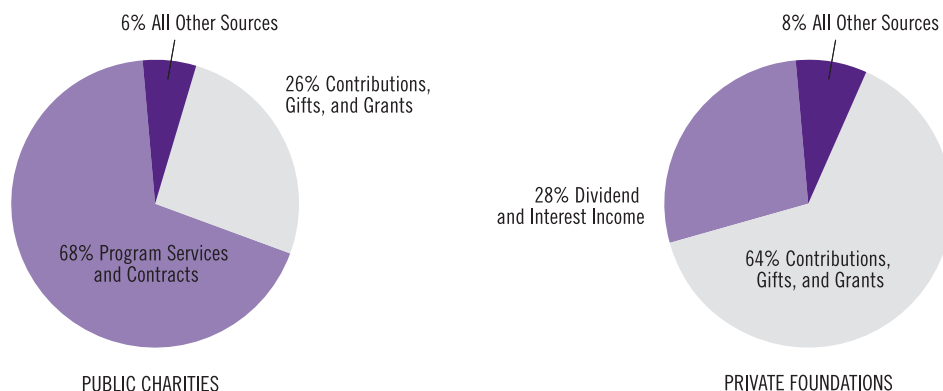
assets. Education nonprofits also report higher-than-average revenues and expenses. Health organizations are well-endowed in terms of assets, but they far outpace the rest of the program areas in revenues and expenses per organization. In contrast, human service organizations, the largest category of nonprofits in Massachusetts, have relatively small financial resources on average. Arts, culture, and humanities organizations also report quite modest revenues and expenses. Public benefit nonprofits occupy the middle ground.²¹

Within program areas, the distribution of organizations by annual income and asset size follow the general patterns discussed earlier, with a few exceptions. Small-budget organizations numerically dominate each program area (Table 5). Organizations with budgets under \$250,000 account for over 50% of organizations in all but one area, health (nonprofits with annual incomes under \$100,000 are the largest category across the board, accounting for more than half of organizations in four of the nine major program areas). In addition, human service organizations dealing specifically with housing tend to be larger, with only 42% reporting a budget under the \$250,000 level.

The health program area is the most heavily skewed toward the large income categories. Over 15% of these nonprofits report income of \$10 million or more (nearly 4% report annual income of over \$100 million), more than twice the share of large-budget organizations reported by any other program area and about three times the rate for the sector as a whole (5.2%). This result is no doubt driven by large nonprofit medical centers, five of which rank among the state's largest employers.²² Education is the only other area with more than negligible numbers in this

21. Nonprofits in the program area mutual & membership benefit report average net assets of over \$22 million, but with only 26 organizations in the category we do not consider it in this section of the analysis.

FIGURE 29: Revenue Sources for Public Charities and Private Foundations in Massachusetts, 2002



Source: National Center for Charitable Statistics.

category, reporting 7% of organizations with income of \$10 million or more.

Similarly, the largest numbers of organizations across most program areas are those in the smallest category of assets—less than \$250,000 (Table 6). In general, these less endowed nonprofits constitute half or more of all organizations in each major program area. A slightly smaller share of health-related nonprofits (41%) fall in this category. The one major deviation from this pattern is human service organizations devoted to housing, where small-asset organizations account for only about one-quarter of nonprofits. Instead, the largest share of organizations—nearly 48%—falls in the \$1-10 million asset category. In fact, more than half of the organizations in the housing category hold more than \$1 million in assets—the only program area with this distinction. This disproportionate concentration of organizations at the higher end of the asset distribution reflects the heavy capital requirements of this field.

Most program areas report only a handful of organizations—under 5%—holding more than \$10 million in assets, but three program areas

run counter to this trend. Health (14%), education (9%), and housing (8%) all report disproportionately high shares of organizations in these top asset categories. Health and education also far outpace the other program areas in the share of organizations with the greatest endowments, those holding more than \$100 million in assets. The state’s largest hospitals and private universities are the likely factors behind this finding.

Nonprofit revenue

In nominal terms, total revenue for the nonprofit sector grew from \$39 billion to \$47 billion between 1997 and 2002, the most recent five-year period for which data are available.²³ The NCCS identifies five major categories for public charity revenue: contributions, gifts, and grants; program services and contracts; investment income; net special events income; and dues, net sales, and other income. Revenue sources for the two types of 501(c)(3) nonprofits, private foundations and public charities, differ significantly (Figure 29). In 2002, private foundations obtained the majority of their funding, over 60%, from contributions, gifts, and grants. This

22. Boston Business Journal (2002). *2003 Book of Lists*.

23. These numbers are not adjusted for inflation.

TABLE 7: Revenue Sources by Program Area for Massachusetts Public Charities, 2002

PROGRAM AREA	CONTRIBUTIONS, GIFTS, & GRANTS	INVESTMENT INCOME	PROGRAM SERVICES AND CONTRACTS	NET SALES & OTHER INCOME
Arts, Culture, and Humanities	38.0%	4.0%	30.7%	26.5%
Education	34.9%	8.9%	57.8%	-1.7%
Health	11.8%	1.2%	85.3%	1.6%
Human Services	29.3%	1.2%	64.6%	4.1%
Public/Society Benefit	75.0%	6.2%	15.9%	2.7%

Source: National Center for Charitable Statistics.

TABLE 8: Revenue Sources by Expense Level of Organization Massachusetts for Public Charities, 2002

EXPENSE LEVEL	CONTRIBUTIONS GIFTS, & GRANTS	NET SPECIAL EVENTS	INVESTMENT INCOME	PROGRAM SERVICES AND CONTRACTS	NET SALES & OTHER INCOME
Less than \$250,000	50.6%	5.2%	5.9%	28.9%	9.3%
\$250 thousand to \$1 million	48.0%	1.8%	4.0%	41.6%	4.6%
\$1 million to \$10 million	31.3%	0.7%	2.8%	61.9%	3.3%
\$10 million to \$100 million	24.9%	0.1%	4.0%	69.7%	1.3%
More than \$100 million	24.9%	0.1%	4.3%	69.9%	0.7%

Source: National Center for Charitable Statistics.

category includes both private donations and government grants. The only other significant source of funding for foundations was dividend and interest income, which accounted for over one-quarter of foundation revenue.

Public charities, however, depend far less heavily on gifts and grants as sources of revenue. In addition, organizations operating in different program areas attract funding in substantially different ways. Program services and contracts (which includes government fees and contracts) accounts for two-thirds of all public charity revenue (recall that state spending on social service contracts with nonprofit providers tops \$2.5 billion). Gifts, grants, and contributions is the other major revenue source, contributing about one-quarter of total public charity funding. The other three categories contribute much smaller amounts to these organizations' revenues. Investment income, at close to 4%, is the largest of the three.

The mix of revenue sources varies across program categories (Table 7). For many, program services and contracts provides the largest amount of funding. Health organizations are disproportionately reliant on program services and contracts, obtaining 85% of their revenue from this source. In addition to payments for services provided directly to clients and patients, many nonprofits in these fields receive payments through government programs like Medicaid and Medicare and contract with state and federal government agencies to provide direct services to clients. Housing nonprofits also generate a larger than average share of revenues from program services and contracts.

Other program areas draw most heavily on contributions, gifts, and grants for funding. Public/society benefit organizations derive three-quarters of their revenue from this source. This category is also the largest source of revenue for

nonprofits in arts, culture, and humanities. And though educational organizations receive over half of their funding from program services and contracts, they, too, receive a higher than average share of revenues from contributions, gifts, and grants.

In general, smaller organizations rely more heavily on contributions, gifts, and grants than larger organizations (Table 8). Public charities with budgets under \$250,000 count about half of their revenues from this source, while large organizations receive about one-quarter of their funding from this channel. Larger public charities rely more heavily on program services and contracts. Organizations with budgets in excess of \$1 million receive more than half of their revenues from programs and contracts, with the largest—those with budgets over \$10 million—drawing nearly 70% of their funding from this source. These patterns may be due in part to the mix of organizations by program area represented in these different budget categories, with health and education dominating the larger-income organizations.

CONCLUDING THOUGHTS

The nonprofit sector is a significant player in the Massachusetts economy. Its size, its growth, and its highly skilled workers underscore its contributions to the economic health and competitiveness of the Commonwealth. This economic profile presents an initial look at the sector, and while it confirms some commonly held beliefs about nonprofits, it also uncovers some lesser known facts, challenging conventional wisdom about nonprofits and their workers. It also points to a sector confronting many changes and challenges. The changing nature of philanthropy—with a greater focus on strategic investments and partnerships with nonprofits—is bringing issues of

accountability and outcome measurement to the forefront of the agenda for both small and large nonprofits alike. Effective responses to these changes must be rooted in knowledge about the sector. Having a more complete command of the facts about the sector can assist nonprofit leaders, civic leaders, and policy-makers in establishing an agenda that maximizes the contributions

INCOMES OF NONPROFIT WORKERS COMPARE FAVORABLY TO THE INCOMES OF THE REST OF THE WORKFORCE.

of nonprofits. This research offers a first step in providing those facts. It also points to the limits of our current knowledge about nonprofit organizations and suggests many opportunities for further study.

Without a doubt, Massachusetts is a leader in the nonprofit sector, both in terms of employment and number of organizations. With 13.4% of the state's workers—nearly twice the national rate—the sector is larger than most industries in the state and outnumbers the public sector in employment. Its ability to grow jobs in the last few years sets it apart from the for-profit and government sectors, highlighting its significance to the state's economic vitality. Nonprofit employment is heavily concentrated in areas of key competitive advantage for Massachusetts and as a major employer in key fields like health care, education, and the knowledge sector, the sector is an important source of middle-class jobs.

Our nonprofit workforce is highly skilled, with an abundance of college graduates in professional and managerial occupations. The incomes of these workers measure up favorably to their counterparts across the entire workforce, though there is considerable variation in pay

levels across nonprofit fields. Massachusetts nonprofits also appear to be more successful than other types of businesses at attracting these talented workers from other states. The causes for this success are unknown at this time. Whether it is due to the specific industry mix of Massachusetts nonprofits, disproportionately heavy on health and education, the presence of well-known hospitals, universities, cultural institutions, and other organizations, or large numbers of college and advanced degree gradu-

THE NONPROFIT SECTOR IS AN IMPORTANT SOURCE OF MIDDLE-CLASS JOBS.

ates opting to stay in the state for career opportunities are questions in need of further study. Nonprofits may be a valuable source of information given the recent interest in recruiting and retaining skilled workers from other parts of the country.

Some of the more intriguing findings uncovered in this research address the characteristics and composition of nonprofit organizations. Most nonprofits are young in age. Nearly three-quarters of Massachusetts nonprofits are less than 25 years old, and one-fifth have been launched in just the past few years. Without good data on the lifetime of a typical nonprofit, it is difficult to interpret the significance of the seeming explosion of nonprofit filings just since 2000. Is there something unusual about recent years that has generated an extraordinary proliferation in nonprofit organizations, or is this part of the normal life cycle of nonprofits? Does this represent a healthy form of competition among organizations or an unnecessary duplication of services? Is it normal organizational churn, a mix of older

organizations exiting the field over time as new organizations launch operations, knowing that many of them will not persist? What percentage of newly-founded nonprofits survive five years or more? The answers to these questions can help policy-makers, nonprofit leaders, and advocates develop specific strategies to meet the challenges of the sector.

The relative mix of public charities and private foundations in the state also reveals a surprise. Though Massachusetts is not generally viewed as a center of foundation activity, particularly compared to other parts of the country like New York or California, the state actually reports a higher proportional share of private foundations than the national average. In addition, the growth rate of foundations has exceeded that of public charities in recent years, generating a slow but steady increase in their presence in the Massachusetts nonprofit community. However, while the state has a high number of total nonprofits given its population, the rest of the country appears to be catching up, as evidenced by the faster growth rate of nonprofits nationwide than in Massachusetts over the past five years.

Breaking down the data by program area and organization finances also leads to some surprises. Over the last five years, the fastest-growing category of nonprofits has been the bigger-budget organizations (\$10 million or more). Small-budget organizations dominate the sector numerically; however, the fact that these organizations are the slowest-growing category of nonprofits belies conventional wisdom, and a number of reasons may explain this fact. Small organizations may be the most vulnerable to closure, which could keep their growth rates down. With a \$100,000 budget, every dollar of revenue takes on added significance; a modest decline in membership or loss of just one grant

or contract could spell financial disaster. While revenue diversification has been a topic of conversation throughout the nonprofit community, it may be especially critical for smaller organizations.

The concentration of nonprofit financial resources also reveals some interesting findings. Resources are concentrated not just by organization size but also, to a considerable extent, by program area. Health and education organizations hold vast resources compared to most of the other program areas, while human services, the largest nonprofit field by number of organizations, is comparatively poor. Organizations that are both small and in a resource-poor program area like human services find themselves vulnerable on multiple counts. As the nonprofit income statistics indicated, the social assistance field is one of the lowest-paying nonprofit industries. The challenges for these organizations are particularly worthy of further study, and a forthcoming report from

Tufts University's College of Citizenship and Public Service will offer an analysis of these critical questions.

The nonprofit sector is a critical contributor to the Bay State's quality of life, but its complexity and diversity have, at times, led to misunderstandings about nonprofits and the true nature of their role in the Massachusetts economy. By presenting a comprehensive, data-based profile of the sector's economic scope, the characteristics of its workforce, and its organizational composition, this report is designed to provide an accurate picture of nonprofits to policy-makers, funders, and nonprofits themselves. This research has identified some areas where our knowledge of nonprofits is still thin, and many fruitful research topics remain. However, the data make clear that the nonprofit sector is a robust component of the Massachusetts economy and must be an essential element of any strategy to maintain and improve the economic health of the Commonwealth.

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