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REPORT #17

COVID-19, Indiana Nonprofit Employment and the Payroll Protection Program, 2020

March 2023

A joint product of
The O'Neill School of Public & Environmental Affairs at Indiana University
The IU Lilly Family School of Philanthropy
and The IU Indiana Business Research Center

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COVID-19, Indiana Nonprofit Paid Employment, and the Payroll Protection Program, 2020

INDIANA NONPROFITS: SCOPE & COMMUNITY DIMENSIONS

NONPROFIT EMPLOYMENT SERIES: REPORT #17

A joint product of

THE PAUL O'NEILL SCHOOL OF PUBLIC & ENVIRONMENTAL AFFAIRS AT INDIANA UNIVERSITY BLOOMINGTON

THE INDIANA UNIVERSITY LILLY FAMILY SCHOOL OF PHILANTHROPY

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TABLE OF CONTENTS

LIST OF FIGURES

PROJECT ADVISORY BOARD

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KEY FINDINGS

- **Total nonprofit paid employment in Indiana declined by 5 percent between 2019 and 2020.** This was first year since 1995 when Indiana nonprofits lost jobs. The losses were pronounced between the first and second quarter of 2020 (down 8 percent), reflecting the impact of the sudden arrival of COVID-19 in early March of 2020. Nonprofit jobs then recovered slowly, but incompletely over the rest of the year.

- **The percent of nonprofit jobs lost varied considerably across nonprofit industries.** Using jobs in the first quarter (Q1) as the base line, the health care industry saw a much smaller percentage loss in nonprofit jobs (loss of 1 percent) by Q4 than social assistance and education (each down 7 percent), and especially membership associations (down 12 percent) and the very small arts, entertainment, and recreation (AER) industry (down 14 percent).

- **Total annual nonprofit payroll increased by 3 percent between 2019-2020**. This continued an unbroken pattern of annual increases since 1995. Although payroll declined between Q1 and Q2 (by 2 percent) and remained below the Q1 level through Q3, it increased enough by Q4 to more than offset losses in prior quarters.

- **Payroll gains varied considerably across nonprofit industries**. Using payroll in Q1 as the baseline, total nonprofit payroll was 10 percent higher in Q4 than in Q1. The health care industry saw the largest gain in payroll (up 13 percent) with social assistance close behind (11 percent). Payroll gains were notably lower in education (up 6 percent) and membership associations (up 4 percent). AER was the only nonprofit industry to have lower payroll in Q4 than in Q1, and the loss was considerable – down 14 percent.

- **The Payroll Protection Program (PPP), along with smaller philanthropic initiatives, likely softened the impact of COVID-19 on Indiana employers.** During 2020, 82,414 PPP loans were approved for Indiana private sector establishments in 2020, with a combined loan value of $9.5 billion.

- **The influx of cash provided by the PPP loans appears to have impacted nonprofit employers differently than for-profit ones**. On some dimensions (share of loans and total loan dollars) nonprofits appear to have benefitted less than for-profits. On other dimensions, (average PPP loan per number of employees), nonprofits appear to have benefitted more than for-profits. However, these patterns differ notably across nonprofit industries.

INTRODUCTION

The arrival of COVID-19 in early 2020 created unprecedented and overwhelming challenges for individuals as well as institutions everywhere. The rapid spread of serious infections and deaths, combined with uncertain or ineffective treatment options, created critical emergencies for health care institutions. Closely related efforts to contain and limit infections had ripple effects across all industries. Lockdowns and mandatory suspensions of non-essential services severely disrupted local economies resulting in discontinued services, high levels of unemployment, and lost income.

In response, community institutions and governments at all levels mobilized massive efforts to mitigate the impact of the pandemic, including efforts to shore up support for nonprofit and other key institutions caught in the middle. This included most notably health and social assistance providers who saw sudden increases in need for their services, but also increased costs to contain infections (e.g., meet disinfecting and social distancing protocols) and disruption of traditional revenue streams.

We examine two related aspects of these developments: (1) how the pandemic impacted paid nonprofit employment in Indiana in key industries and (2) the extent to which the massive Payroll Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Securities (CARES) Act[1] appears to have cushioned the impact. For this part of our analysis, our primary focus is on how nonprofit employers benefitted from the PPP loans/grants compared to their for-profit counterparts in the same industries.

DATA

We rely on two important sources of data. Our analysis of how COVID-19 impacted Indiana employers come from the Covered Employment and Wage (QCEW) data system.[2] The dataset covers an estimated 95 percent of all paid employment in the U.S. and contains information on the detailed industry of establishments participating in the reporting system, their locations, the number of paid employees on a particular date each quarter, total quarterly payroll, and whether the establishment is private or government.

There are important limitations to the QCEW data. First, the data only becomes available about 9-10 months after they were collected. Second, we only have access to aggregated data, not data at the establishment level. Third, we have only the count of paid employees on a particular date each quarter, not how many are working full-time or part-time. Fourth, only establishments registered with the IRS as exempt entities can be identified as nonprofits in the QCEW data. Unfortunately, a non-trivial number of nonprofits are not registered with the IRS. Finally, churches – and in some states (including Indiana) charities with less than four employees – are not required to participate in the QCEW system, although a small fraction do. As a result, the

[1] See S.3548 – Cares Act. Available online at https://www.congress.gov/bill/116th-congress/senate-bill/3548/text (accessed 9/13/2022). The loans could be forgiven if employers documented keeping employees on the payroll and using the funds for eligible payroll costs, business mortgage interest, rent, or utilizes during either an 8 or 24-week period after the loan was disbursed.

[2] See https://www.bls.gov/cew/ and https://www.bls.gov/opub/hom/cew/home.htm.

membership association industry, to which churches belong, is significantly underestimated.[3]

Our analysis of the impact of Payroll Protection Plan (PPP) loans is based on micro-level data on PPP loans processed and approved by the U.S. Small Business Administration (SBA) for establishments with Indiana addresses during 2020.[4] The data include much detailed information (53 fields), such as the names and locations of loan recipients, names and addresses of financial institutions processing the loans, how loan recipients planned to use the amounts (payroll, occupancy, etc.), type of entity receiving the loan, detailed NAICS industry code for each loan recipient, and more.

We caution, however, that many of these details seem highly questionable. Not only are there missing codes for the industry (NAICS) and type of establishment for loan recipients, but the information is not consistent across comparable entities. For example, several establishments with industry codes in the membership association family (NAICS 813) were identified as corporations, sole proprietorships, or limited liability companies, suggesting that nonprofits are not captured accurately. We have corrected obvious errors, but many likely remain.[5]

We don't know the reasons for these omissions or errors but speculate that classifying loan recipients in terms of industries or type of entity were considered less important than processing the loans themselves. We note that both the financial institutions processing the loan applications, and the Small Business Administration (SBA) responsible for approving them, were under considerable pressure to get the loans processed and payments issued as quickly as possible.

Given the very large number of loans to establishments with Indiana addresses (82,414 in 2020),[6] we have been unable to undertake more than a cursory check for inaccuracies or correct more than a few of the clearly wrong data entries. As a result, we have less than complete confidence in the accuracy of the data presented below, and we hesitate to present much industry detail, particularly for the membership industry, and do not report on the latter separately.

IMPACT OF COVID-19 ON INDIANA NONPROFIT EMPLOYMENT

COVID arrived suddenly in Indiana (see Figure 1), and elsewhere. The first confirmed case of

[3] See Appendix A for a fuller description of these limitations.

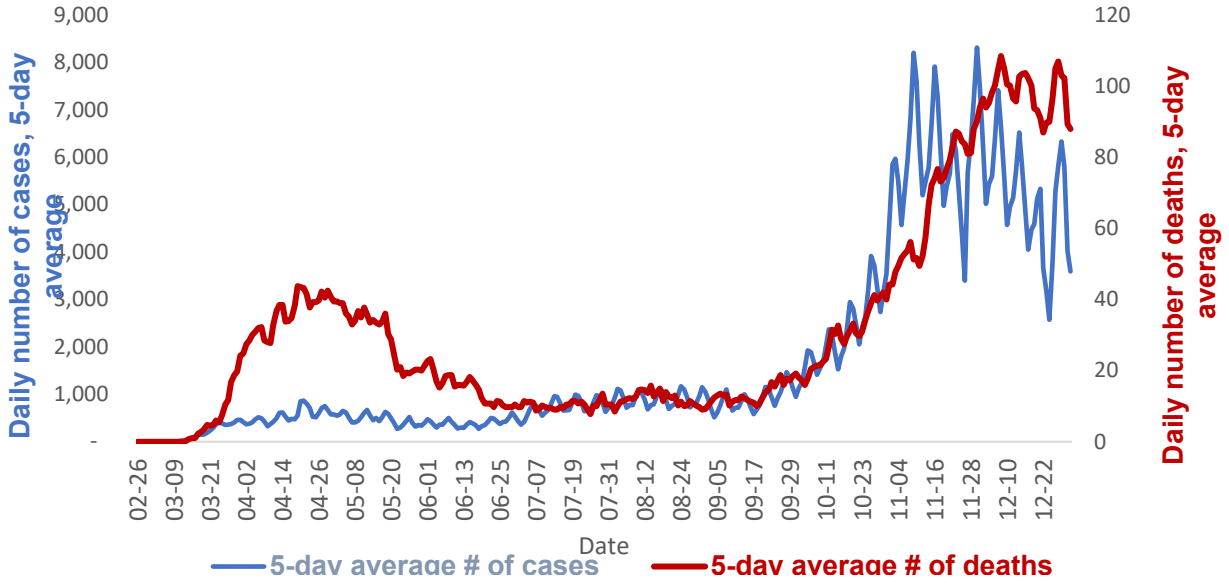
[4] We are enormously grateful to Jeff Williams at the Dorothy A. Johnson Center for Philanthropy at Grand Valley State University for providing us with an excerpt of data for Indiana. Jeff also flagged nonprofit entities for us based on type of entity in the PPP data. We added Professional Associations to the nonprofit flag.

[5] Some information is clearly wrong, e.g., United Way of Central Indiana is coded as a museum and of four loans to Future Farmers of America, two are coded as "sole proprietors." We have corrected these types of errors when we discovered them. In other cases, inconsistences may reflect the fact that the addresses of loan recipients are a mix of actual HQ addresses, address of the local affiliate that the bank "sees" as the location, address of the office for the business manager filling out the form, etc. (Jeff Williams, personal communication).

[6] Nationally, 5.1 million PPP loans totally $521.8 billion, were approved in 2020. Of these, an estimated 183,600 loans went to nonprofits with combined value of $37.7 billion. Personal communication, Jeff Williams, Feb. 7, 2023.

COVID-19 in Indiana was reported on March 6th, 2020[7] and Governor Eric Holcomb issued Executive Order 20-02, declaring a public health emergency for Indiana, on the same day.[8] By April 3, the entire state was declared a major disaster area and deaths escalated quickly to reach more than 40 per day by mid-April (see red trendline in Figure 1), as did hospitalizations. Infections increased more steadily before growing rapidly after the early part of October (see blue trendline in Figure 1) with deaths also increasing to more than 100 per day by the end of December.

Figure 1. COVID-19 cases and deaths, Indiana 2020



COVID-19 also quickly began to have a notable impact on the state's economy. Between March 16 to 23, Governor Holcomb issued five executive orders[9] that increasingly restricted economic activities. The first (20-04) suspended all in-dining services for food establishments and cancelled non-essential surgical procedures. Another, Executive Order 20-08 on March 23, suspended all "non-essential services and operations" and required social distancing and use of sanitizing products for all continuing operations.

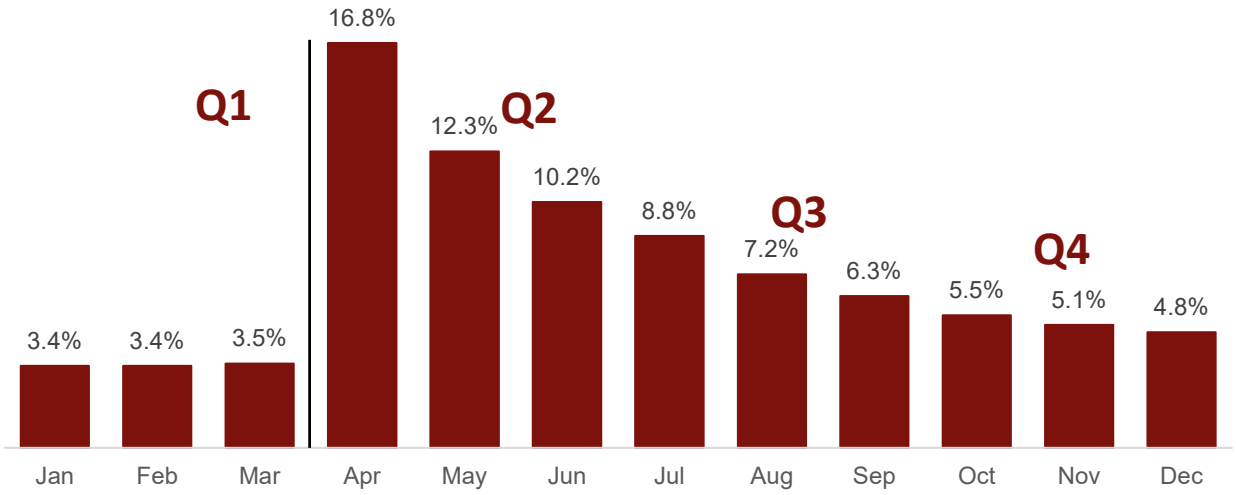
These restrictions and the pandemic itself were undoubtedly largely responsible for a sudden spike in the unemployment rate, reaching almost 17 percent in April – a level four times higher than during the first three months of the year (Figure 2). The rate of unemployment declined to 12 percent in May and continued to fall steadily for the rest of the year, dropping to just below 5 percent in December 2020. The decline in unemployment rate reflected in part a slow return of job opportunities, but also the fact that people dropped out of the labor force altogether and no longer sought employment. Some, perhaps, considered it too risky to work while the pandemic was raging. Others gave up finding employment or had family responsibilities that prevented them from actively seeking employment.

[7] https://www.coronavirus.in.gov/. Full data available: https://hub.mph.in.gov/dataset/covid-19-case-trend.

[8] See executive orders 20-02 at https://www.in.gov/gov/newsroom/executive-orders/2020-executive-orders/.

[9] See executive orders 20-04, 20-05, 20-06, 20-07, and 20-08 at https://www.in.gov/gov/newsroom/executive-orders/2020-executive-orders/

Figure 2. Percent unemployed by month, Indiana 2020



The QCEW data only counts the number of people employed on a particular date during a given quarter, so we cannot track monthly changes in nonprofit employment. As a result, we treat the first quarter of 2020 as "before COVID-19" and then track what happened to nonprofit employment and payroll quarter by quarter as the pandemic intensified and spread before it began to stabilize towards the end of 2020.

Given the Governor's executive orders and trends in unemployment, we expect the greatest impact on employment to have occurred in Q2 (April through June of 2020) with substantial drops in both nonprofit employment and payroll between the first and second quarter of 2020. However, we are also interested in whether and how nonprofit employment and payroll recovered during the latter half of 2020. We expect both would recover slowly over the third and fourth quarters, possibly facilitated by the infusion of funds from the Payroll Protection Program and similar initiatives.[10]

Nonprofit Industries

Total annual nonprofit paid employment in Indiana declined by 5 percent between 2019-2020, the first time since 1995 when our data series began, while total payroll increased by 3 percent, maintaining an unbroken record of annual gains in nonprofit payroll. We pay particular attention to what happened to quarterly employment during 2020 in key nonprofit industries. As we noted earlier, health care played a pivotal role in responding to the rapid spread of infections and associated deaths, while the social assistance industry played an important role in shoring up local social safety nets.

Given efforts to protect and support these services, we expect nonprofits in these industries to have fared if not well, then at least better than nonprofit establishments in other industries. The remaining nonprofit industries – education, membership and similar organizations, and arts,

[10] Below, we examine the potential impact of the Payroll Protection Act, part of the CARES Act, passed on March 27, 2020. Although it took some time to for the legislation to come into effect, we explore whether nonprofit employment and payroll numbers recovered along the same timeline as PPP funds were distributed.

entertainment, and recreation (AER) – were less directly involved in responding to the pandemic itself but were hit by the suspension of non-essential services.

These five industries accounted for 92 percent of nonprofit employees and payroll in Indiana in 2020. As Figure 3 shows, nonprofit health care is by far the largest of the five, dwarfing the other industries by a factor of four or more in terms of nonprofit employees, and a factor of six or more in terms of nonprofit payroll (Figure 4). By itself, health care accounts for 59 percent of total nonprofit employees and 69 percent of nonprofit payroll in Indiana. AER is the smallest of the five, accounting for only 2 percent of Indiana's nonprofit employment and 1 percent of nonprofit payroll. The remaining industries each account for between 8 and 12 percent of the state's nonprofit employment and between 5 and 11 percent of nonprofit payroll.

Figure 3. Number of nonprofit jobs (thousands) by industry and quarter, Indiana 2020

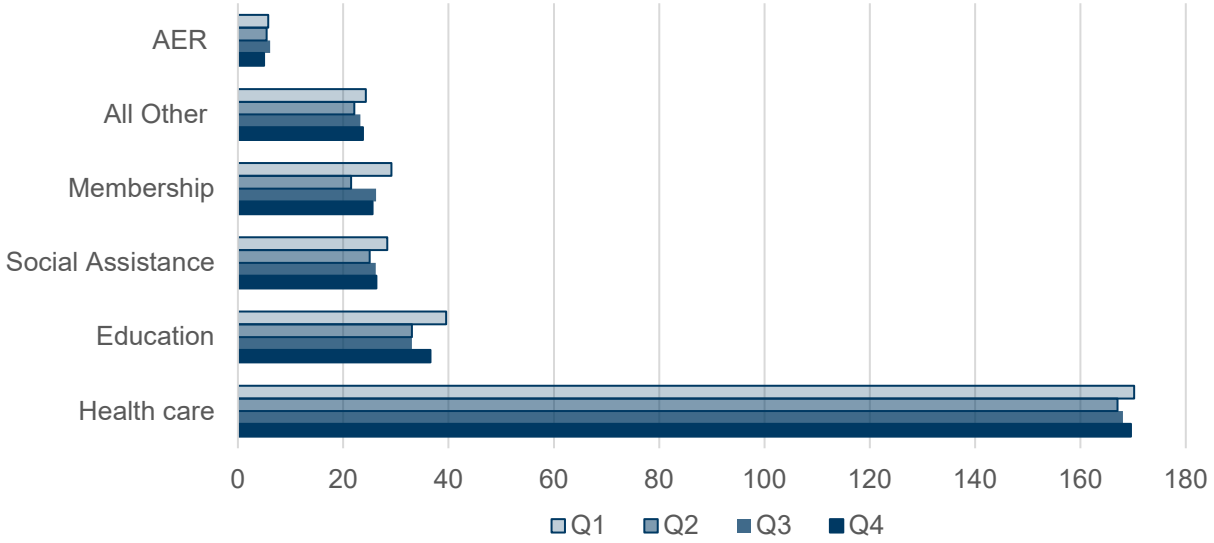


Figure 4. Total nonprofit payroll ($ millions) by industry and quarter, Indiana 2020

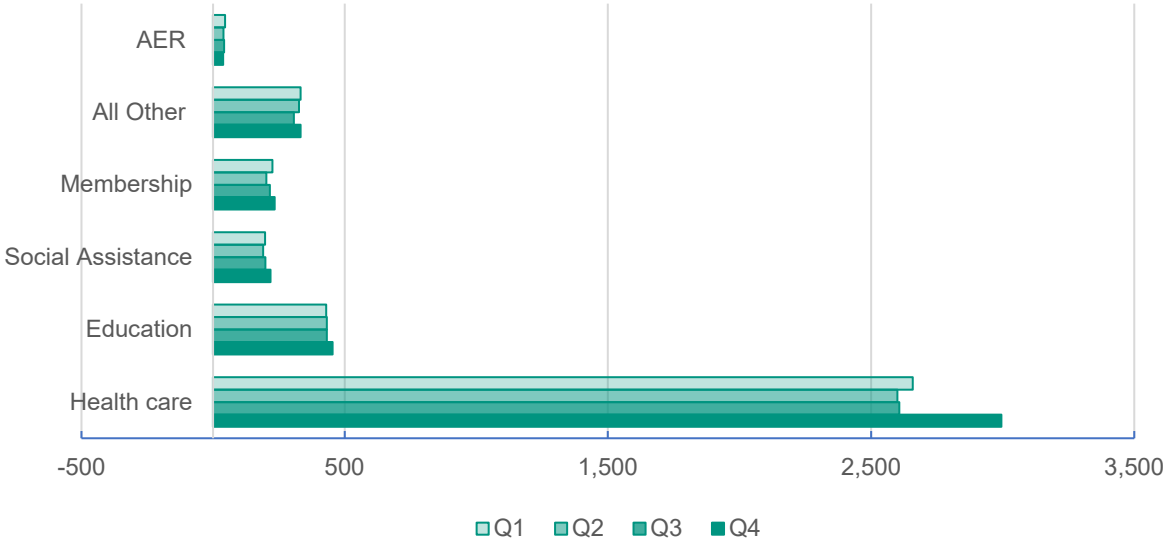
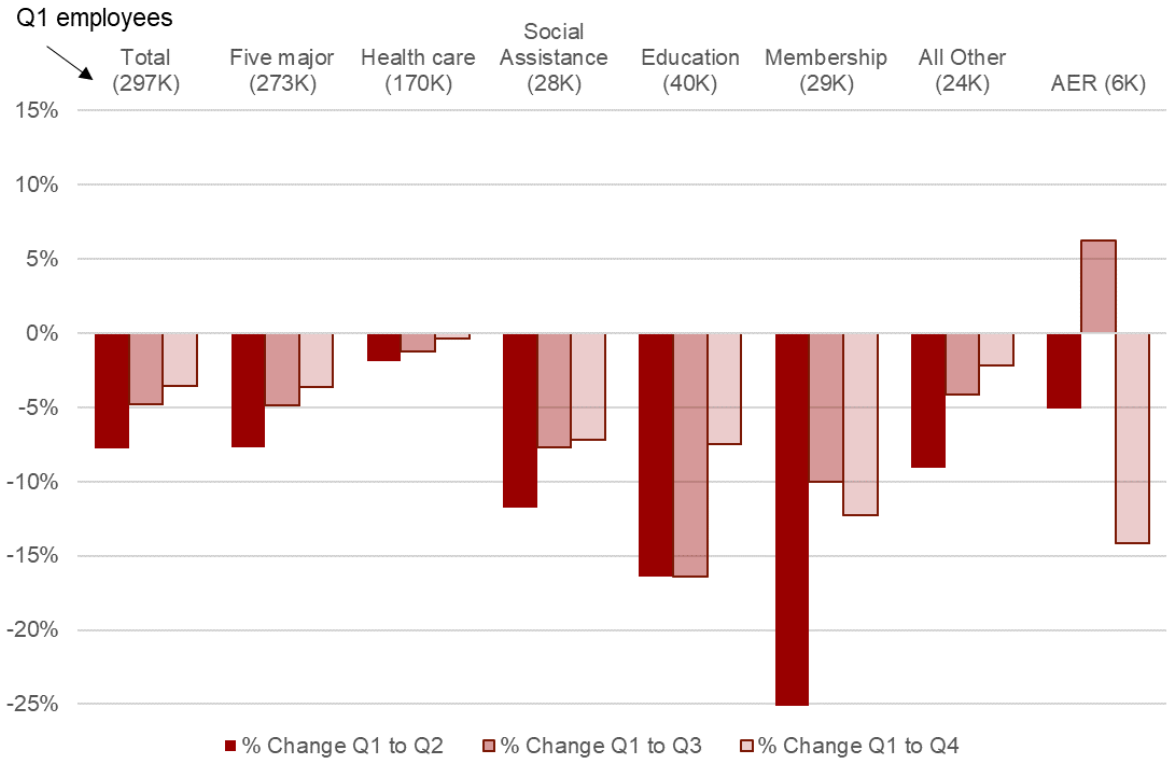


Figure 3 suggests that each nonprofit industry experienced a decline in the number of employees between Q1 and Q2 and some level of recovery by Q4, but not enough to reach Q1

levels. Nonprofit payroll (Figure 4) also changed from one quarter to the next, but with a more notable recovery by Q4. The combination of fewer employees with higher payroll in Q4 compared to Q1 likely reflects at least in part a shift from part-time to full-time employees, but perhaps also a tendency to protect higher wage workers with essential skills from layoffs, and/or greater competition for workers with particular skill sets. Regardless of the explanations, the pattern was pervasive across all nonprofit industries.

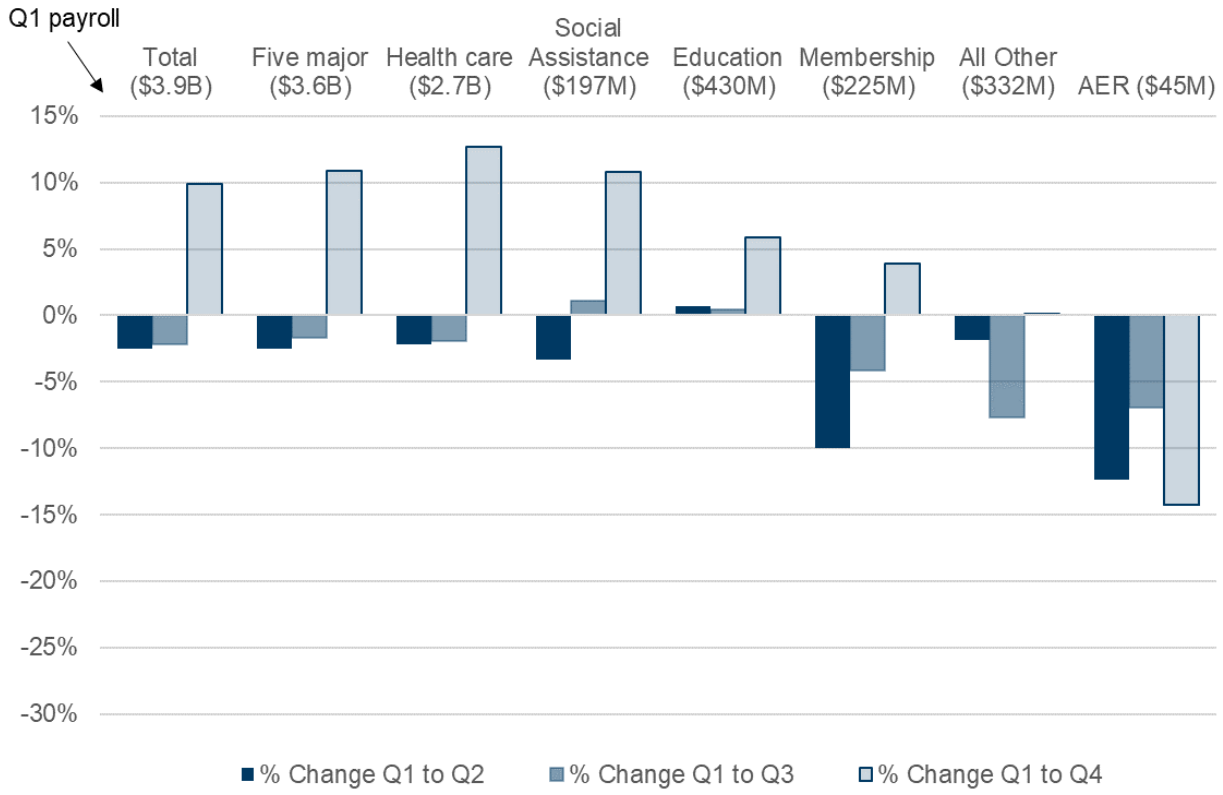
Because nonprofit industries differ so greatly in size, we computed a more explicit and comparable measure of the extent to which jobs and payroll in each industry changed over the course of the pandemic, using Q1 in the industry as the base line. As Figure 5 shows, the total number of nonprofit employees (left most cluster of bars) stood at 297,000 in Q1 and dropped almost 8 percent between Q1 and Q2. The gap from Q1 grew smaller each of the next two quarters, but by Q4 total nonprofit employment was still down by almost 4 percent compared to Q1. As the lightest bar for each cluster in Figure 5 shows, all nonprofit industries had fewer employees in Q4 than in Q1 before the Pandemic hit – each bar is below the baseline for Q1.

Figure 5. Percent change by quarter in NP employees as percent of Q1 NP employees by industry, 2020



As Figure 6 shows, total nonprofit payroll (left most cluster of bars) stood at almost $3.9 billion in Q1 and dropped by only about 2 percent between Q1 and Q2 and held steady at that level in Q3. However, by Q4 total nonprofit payroll had more than recovered and was up fully 10 percent from what it had been in Q1. A very similar pattern holds when we look at the five major industries (second cluster of bars in each Figure). We turn now to a more detailed look at how each major nonprofit industry fared during 2020.

Figure 6. Percent of change by quarter in NP payroll as percent of Q1 NP payroll by industry, 2020



Healthcare — Because health care accounts for such a large share of total nonprofit employees and payroll (respectively 59 and 69 percent), it closely mirrors trends for total nonprofit employment and payroll. As Figure 5 shows, the very large nonprofit health care industry (170,000 workers, third cluster of bars) did well compared to other nonprofit industries. The number of employees dropped by only 3,200 employees – less than 2 percent – between Q1 and Q2. Employment recovered slowly over the next two quarters, but not enough to entirely offset the initial loss. By the end of 2020, nonprofit employment in healthcare was still below Q1 levels but only by less than 1 percent.

Nonprofit payroll in health care (Figure 6) also dropped between Q1 and Q2, down 2 percent from $2.66 billion to $2.60 billion and stayed at that level through Q3. By Q4, however, nonprofit payroll in health care had not only regained the level it had in Q1 but was up 13 percent to almost $3 billion.

The resilience of the nonprofit health care industry during 2020 is noteworthy – it is the only industry where nonprofit employment was relatively steady. Undoubtedly, the resilience reflected its key role in responding to the pandemic as people became infected and needed treatment, especially during the first year of the pandemic before effective treatments and new vaccines had been developed.

Social Assistance — The much smaller social assistance industry (28,000 employees in Q1) showed a more notable impact of COVID-19 (fourth cluster of bars in Figure 5). Nonprofits lost 3,300 jobs in social assistance between Q1 and Q2, slightly more than the loss of nonprofit jobs

in the much larger health care industry (3,200), dropping 12 percent between Q1 and Q2 (Figure 5) as all but essential programs and services were suspended or curtailed in the wake of the pandemic. This was followed by steady increases in paid employment over the remaining two quarters, but not enough to offset the initial loss. By Q4, nonprofit employment had increased to 26,300, still down 2,000 jobs since Q1 – a decline of more than 7 percent in nonprofit social assistance jobs over the year, compared to the substantially flat change in nonprofit health care jobs.

Nonprofit payroll in social assistance (see Figure 6) followed the trend in number of jobs in the industry – down by $7 million from $197 million in Q1 to Q2, or by 3 percent, but then increased in each of the next quarters. As was the case for health care, total nonprofit asocial assistance payroll was substantially higher at the end of 2020 than it had been at the beginning of the year, up 11 percent to $218 million in Q4, almost on part with the 13 percent increase for the much larger nonprofit health care payroll. While the nonprofit social assistance industry was less resilient in protecting jobs and gaining payroll than nonprofit health care, it did notably better than the remaining nonprofit industries.

Education — This industry was also hard hit during the early part of the pandemic, with total nonprofit employment in education (see Figure 5) dropping by more than 16 percent, almost 6,500 jobs from 39,500 in Q1, compared to a loss of 12 percent in social assistance. Paid employment remained at that level through Q3, before recapturing some of the losses by Q4, but still down substantially (by almost 8 percent) over the year, roughly comparable to the decline in nonprofit social assistance jobs.

Nonprofit payroll in education does not follow the trends in the number of jobs or in payroll for healthcare and social assistance (Figure 4 above). There was no drop in payroll between Q1 and Q2, despite the 16 percent loss in jobs, but a slight increase of almost 1 percent (up by $2.9 million from $429.6 in Q1). Payroll stayed steady in Q3, but then also saw a notable increase in Q4 and ended the year up 6 percent over the year. The latter is substantially less than the 11 percent increase in nonprofit social assistance payroll and the 13 percent in nonprofit health care payroll over the same period.

Membership Associations — This industry is almost entirely dominated by nonprofit establishments, although there are a few public sector associations. As Figure 5 shows, nonprofit employment declined by more than a quarter (26 percent) from 29,100 in Q1, then recovered about half of that loss in Q2, but declined again in Q4, down 12 percent over the year.[11]

Total nonprofit payroll in membership was down 10 percent from $225 million Q1 to Q2, but then increased steadily each quarter for the rest of the year (Figure 6). Total nonprofit payroll in membership associations was up 4 percent over the year to $234 million in Q4. This is about on par with the increase in nonprofit payroll in education (up 6 percent), but notably less than the increase for nonprofit payroll in social assistance (up 11 percent) or health care (up 13 percent).

Arts/Entertainment/Recreation (AER) — The AER industry is dominated by for-profits and for

[11] As noted earlier and detailed in Appendix A, this industry includes congregations, but very few of Indiana's almost 9,000 congregations participate in the QCEW reporting system. The underreporting distort trends for this industry.

nonprofits is by far the smallest of the five major nonprofit industries with only about 5,800 nonprofit employees in Q1. That's about one-fifth the number employed in the next two smallest nonprofit industries during Q1: social assistance (28,300) or membership associations (29,100). The number of nonprofit employees in AER seesawed over 2020 (Figure 5 above, last cluster of bars), dropping first by 5 percent (300 employees) between Q1 and Q2, then increased in Q3 to before dropping again in Q4 to 4,900, for an overall decline of 14 percent.

Nonprofit AER payroll declined by 12 percent from $45 million in Q1 (Figure 6) but recovered about half of the lost ground in Q3 (down 7 percent compared to Q1). However, nonprofit AER payroll fell even further behind the Q1 level by Q4 to $39 million and ended the year down also by 14 percent. This is the only major nonprofit industry with an overall decline in total nonprofit payroll over 2020.

All Other Industries — The remaining 8 percent (24,300 in Q1) of Indiana's nonprofit employees are scattered across almost all other industries in the state (except for agriculture and mining) – slightly below the count employed in social assistance (28,000) or membership associations (29,000). Because of the diversity of "all other industries" it is difficult to explain the somewhat divergent patterns shown in Figures 5 and 6 (next to last cluster of bars). However, by Q4 the total number of nonprofit employees in these industries was down 2 percent from the count in Q1 and payroll had recovered, but only to the level it had been in Q1.

IMPACT OF PPP LOANS

The notable increase in total nonprofit payroll during 2020 signals a significant influx of cash. The fact that this occurred at the same time as the number of nonprofit jobs were flat or declining may reflect greater productivity by fewer, more specialized – and costly – workers and/or a shift from part-time to full time workers. However, these changes in payroll likely also reflect at least in part efforts by external institutions to mitigate the economic impact of COVID-19.

Thus, philanthropic funders launched efforts targeted exclusively at charities. For example, the Lilly Endowment Inc. (the largest private foundation in Indiana), awarded about $208 million during 2020 in response to the pandemic.[12] The bulk of funding (85 percent) went to Indiana charities ($167.5 million) or was earmarked for Indiana ($10 million) from grants to national charities. Across Indiana, local United Ways and community foundations raised additional funds from local donors to support charities and essential services

However, the federal Coronavirus Aid, Relief, and Economic Securities (CARES) Act[13] enacted on March 27, 2020, in response to the economic fallout of the pandemic, was likely much more important, given the scale of funding involved – about $2.2 trillion at the national level. One major provision of the act (Division A) was the "Small Business Interruption Loans," commonly

[12] Detailed in Lilly Endowment: Special Report, "COVID-19: Helping the Helpers," available online at https://lillyendowment.org/wp-content/uploads/2021/07/covid-full-report.pdf

[13] See S.3548 – Cares Act. Available online at https://www.congress.gov/bill/116th-congress/senate-bill/3548/text (accessed 9/13/2022). The loans could be forgiven if employers documented keeping employees on the payroll and using the funds for eligible payroll costs, business mortgage interest, rent, or utilizes during either an 8 or 24-week period after the loan was disbursed. The CARES act included $150 billion to support state, local and tribal governments efforts to respond to the pandemic, some of which benefitted nonprofits.

referred to as the Paycheck Protection Program (PPP), administered by the Small Business Administration.[14] The program was designed to help "small" (defined as 500 or fewer employees) businesses and other organizations impacted by the disruptions and allow them to continue to pay their employees and meet related operational expenses.

Nonprofits were eligible for the program, although that may not always have been clear to nonprofits or the financial institutions processing the loan applications. Not only was the loan application designed for businesses,[15] but anecdotal evidence suggests some financial institutions marketed the program primarily to their own customers, mainly businesses, and didn't think nonprofits were eligible for the loans.

Indeed, preliminary analysis from a survey of Indiana nonprofits in May of 2020 shows that almost half of respondents had either not applied for PPP loans (27 percent) or believed themselves not eligible (20 percent) for the loans. However, another half of respondents to the survey (49 percent) had applied for and been approved for a PPP loan.[16] The same survey found that more than two-thirds had lost cashflow since March 6, 2020, from a variety of sources (e.g., special events, fees, government contracts) with a median loss of about 20 percent. The loan forgiveness option, which converted PPP loans to grants if the number of employees were maintained by a particular date, would have been particularly attractive to nonprofits.

In all, the SBA approved 82,414 PPP loans to Indiana employers in 2020 with a combined loan value of $9.5 billion. By way of context, our QCEW data show that total private payroll (nonprofit and for-profit) in Indiana was $132.5 billion in 2020, so the combined value of PPP loans in 2020 amounted to about 7 percent of total 2020 private payroll in the QCEW data. That may seem like a small percentage, but the total private QCEW payroll dollars include payroll dollars from very large employers that were not eligible for PPP loans, such as manufacturing plants.

In many ways nonprofits appear to have benefitted less from the PPP loans than for-profits, but the patterns are complex and depends on the type of analysis conducted. There are also major differences across nonprofit industries. We examine several important dimensions to determine whether and how nonprofit employers benefitted from PPP loans differently than for-profit employers.

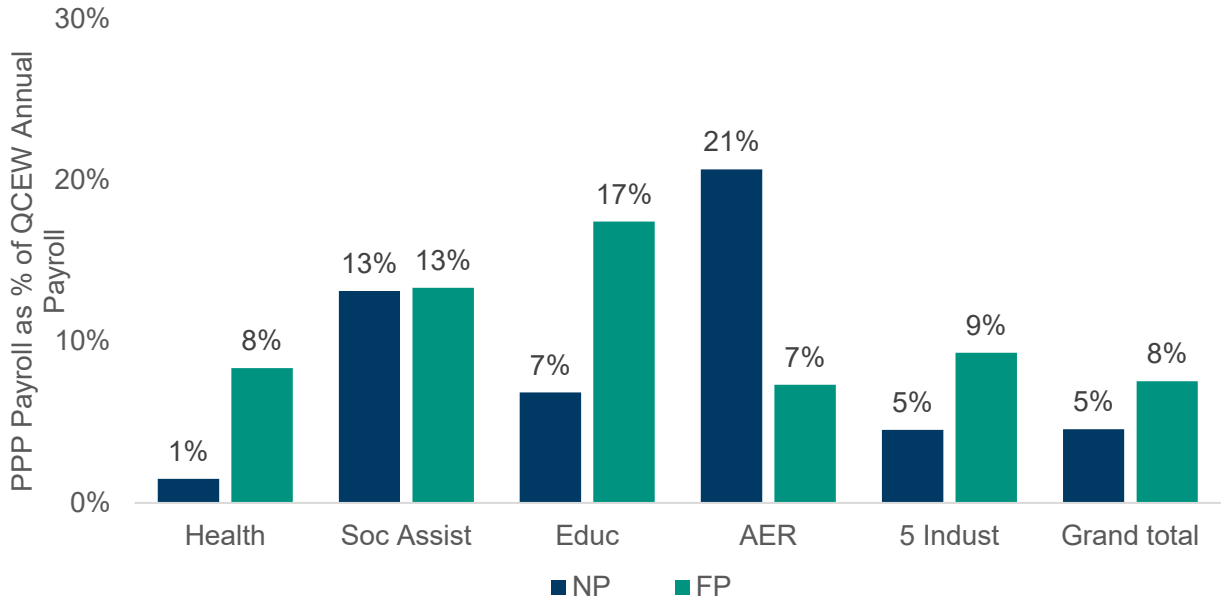
PPP Loans and Total Payroll — PPP loans to identified nonprofits was equivalent to 5 percent of total nonprofit payroll in 2020, compared to 8 percent of total for-profit payroll (see last two

[14] Other federal government programs also aimed to help small businesses by providing tax credits (see https://home.treasury.gov/policy-issues/coronavirus). However, since nonprofits don't pay income taxes, the tax credits did not benefit them.
[15] For some details about this, see Carolyn Duren and Ronamil Portes, "Nonprofit borrowers struggle with Payroll Projection Program uncertainty," S&P Global Market Intelligence, at https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/nonprofit-borrowers-struggle-with-paycheck-protection-program-uncertainty-59873472. Accessed 2/8/2023.
[16] Only 4 percent applied for SBA/PPP loans but were not approved or applied so late that funding was not available. For full details, see Kirsten Grønbjerg, Elizabeth McAvoy, and Kathryn Habecker, "Indiana Nonprofits and COVID-19: Impact on Services, Finances and Staffing." Indiana University Bloomington, O'Neill School of Public and Environmental Affairs, 2020. Available online at https://nonprofit.indiana.edu/doc/publications/covid-19-impact.pdf.

bars in Figure 7). If we focus on just the five major nonprofit industries examined above (next to last set of bars in Figure 7), PPP loans to nonprofits amounted to 5 percent of total nonprofit payroll, compared to 9 percent of for-profit payroll in the same industries.

Of the four industries shown separately in Figure 7,[17] only social assistance had similar reliance on PPP loans for nonprofits and for-profits – each received PPP loans equivalent to 13 percent of their respective annual payroll. We believe this is because both nonprofit and for-profit establishments in this industry generally tend to be small and similar across the major sub-industries (e.g., child day care, individual and family counseling, vocational rehabilitation, and community food and relief services).

Figure 7. PPP loans as percent of QCEW 2020 payroll, by industry and sector, Indiana



In two of the remaining industries, nonprofits received PPP loans that were equivalent to a substantially smaller percent of their total payroll than for-profits. For health care it was only 1 percent for nonprofits compared to 8 percent for for-profits, in education it was 7 percent for nonprofits compared to 17 percent for for-profits. In each industry, the largest institutions (respectively hospitals and universities) are overwhelmingly nonprofits and because of their size were not eligible for the PPP loans.

The opposite pattern holds for AER, where nonprofit PPP loans amounted to 21 percent of total QCEW payroll in 2020, compared to only 7 percent for for-profits. In this industry, the largest establishments (such as spectator sports and gambling) are almost entirely for-profits and because of their size also not eligible for PPP loans.

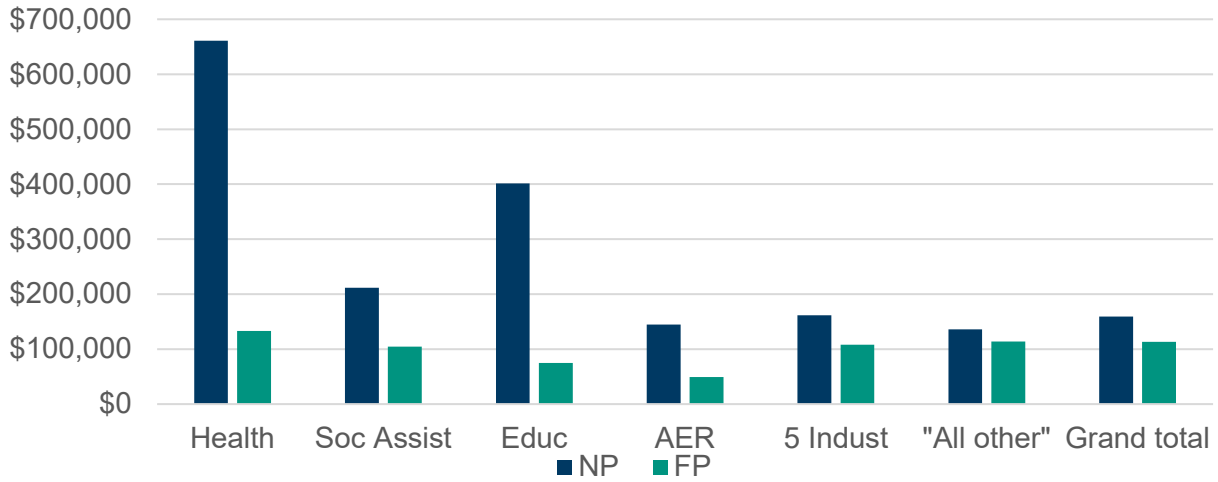
Average Size of PPP Loans — A somewhat different pattern is evident when we look at the average size of PPP loans – $159,000 for the relatively few nonprofits that received PPP loans

[17] We do not report separately on PPP loans to establishments coded as membership associations, since a number of these loans appear to have problematic ownership codes (e.g., sole proprietors).

compared to $113,000 for for-profits (see last two bars in Figure 8). In every industry, the average size of PPP loans was higher for nonprofits than for-profits. However, there are notable differences across industries also here. As Figure 8 shows, nonprofits in health and education had much larger loans on average than for-profits in the same industries – by a factor of five or more. In AER, nonprofits had larger average PPP loans than for-profits by a factor of three and in social assistance it was by a factor of two.

This is consistent with our analysis of nonprofit employment in major nonprofit industries reported elsewhere.[18] These reports show that nonprofit establishments on average tend to have more employees than for-profit establishments in all industries (the same pattern holds for almost all 22 subindustries in the five major nonprofit industries). As a result, nonprofits are likely to be eligible for larger PPP loans than for-profits across the board simply because they have more employees.

Figure 8. Average size of PPP loans by industry and sector, Indiana



In addition, as we noted earlier, in health care and education nonprofits dominate some subindustries with very large establishments (e.g., hospitals and outpatient clinics in health care and universities and elementary and primary schools in education), while for-profits dominate subindustries with much smaller establishments (e.g., nursing and residential establishments in health care, and trade and professional schools in education). These subindustry differences likely account at least in part for why average PPP loans were so much larger for nonprofits than for-profits in these two industries.

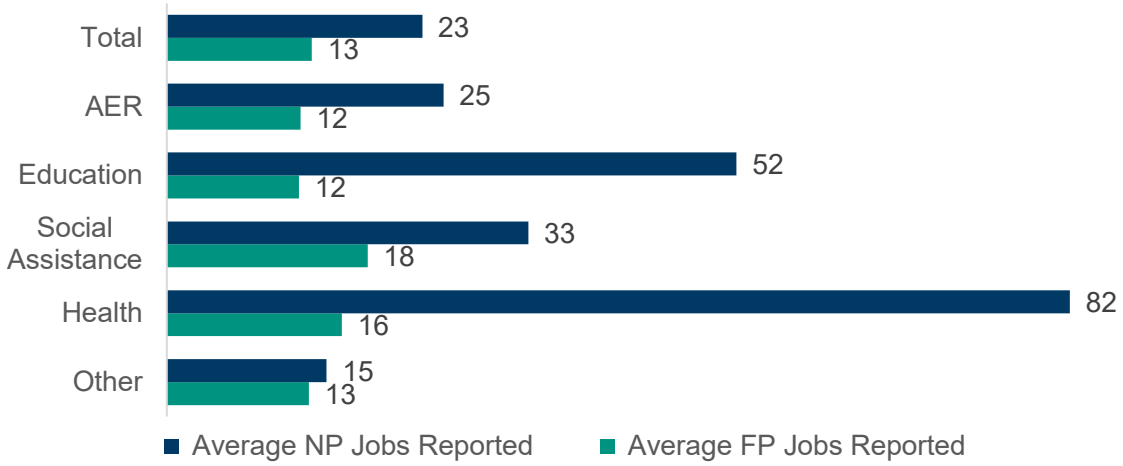
In the AER and social assistance industries, subindustries do not differ as greatly by size of establishments, although for-profits dominate gambling and spectator sports organizations in AER, which tend to be large establishments, while nonprofits dominate subindustries with somewhat smaller establishments, such as museums and historical sites.

These differences in average number of employees appear to be at least part of the explanation for the relatively larger loans received by nonprofits. To explore that possibility further, we examined the number of jobs reported by PPP loan recipients. As figure 9 shows, the average

[18] See 2019-2020 reports on nonprofit paid employment in key nonprofit industries (available here: https://nonprofit.indiana.edu/research-results/employment-by-industry.html): Health Care; Social Assistance; Arts, Entertainment and Recreation; Education, and Membership organizations.

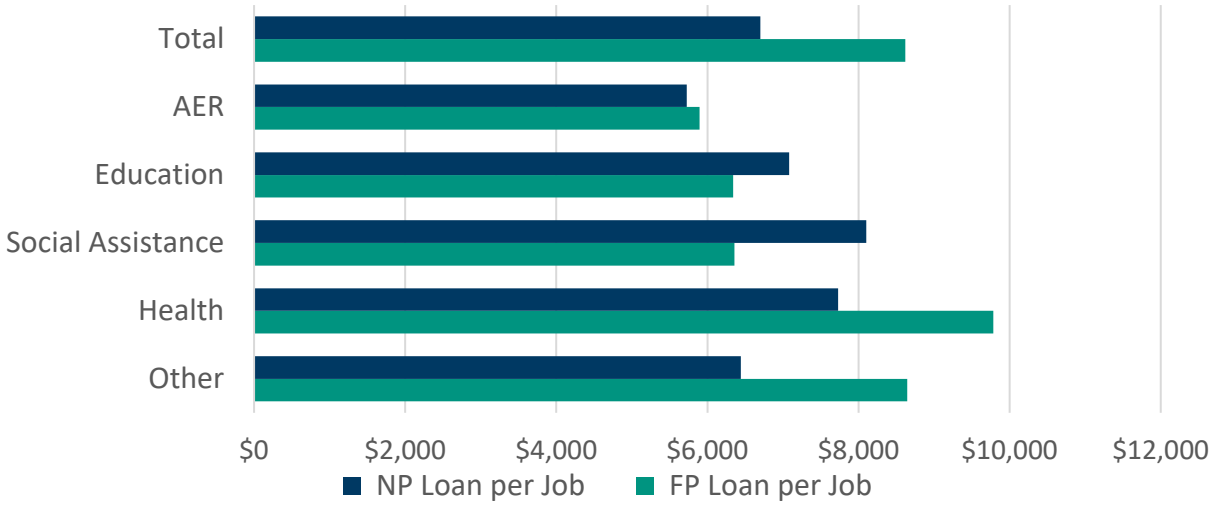
number of jobs reported by nonprofits receiving PPP loans was 23 jobs per loan recipient (top blue bar), compared to only 13 for for-profits (top green bar). In health, the nonprofit margin was even greater – by a factor of more than five (82 vs. 16) and in education it was by a factor of more than four (52 vs. 12). For the two other nonprofit industries shown separately in Figure 9 – social assistance and AER – the average number of jobs reported by nonprofit PPP recipients was at least twice the number reported by for-profit loan recipients.

Figure 9. **Nonprofit** vs **For-Profit** average PPP jobs per establishment by industry, Indiana



Average PPP Loan Per Job — To adjust for differences in size of establishments, we therefore computed the average loan per job. This more detailed analysis (Figure 10) shows that the average loan per job was notably higher for all for-profit loan recipients ($8,600) than for nonprofit loan recipients ($6,700). However, this appears to be driven mainly by loans to health care establishments where for-profits received loans that were higher by an average of more than $2,000 per job ($9,800 vs $7,700) compared to nonprofits, and in the "all other" industries ($8,600 vs. $6,400). For-profits had a notably smaller margin in AER – only about $175 ($5,900 per job vs. $5,700 for nonprofits. In the remaining two nonprofit industries shown separately, nonprofits received higher average loans per jobs than for-profits, $8,100 vs. $6,400 for social assistance, and $7,100 vs. $6,300 in education.

Figure 10. **Nonprofit** vs **For-Profit** average loans per job by industry, Indiana

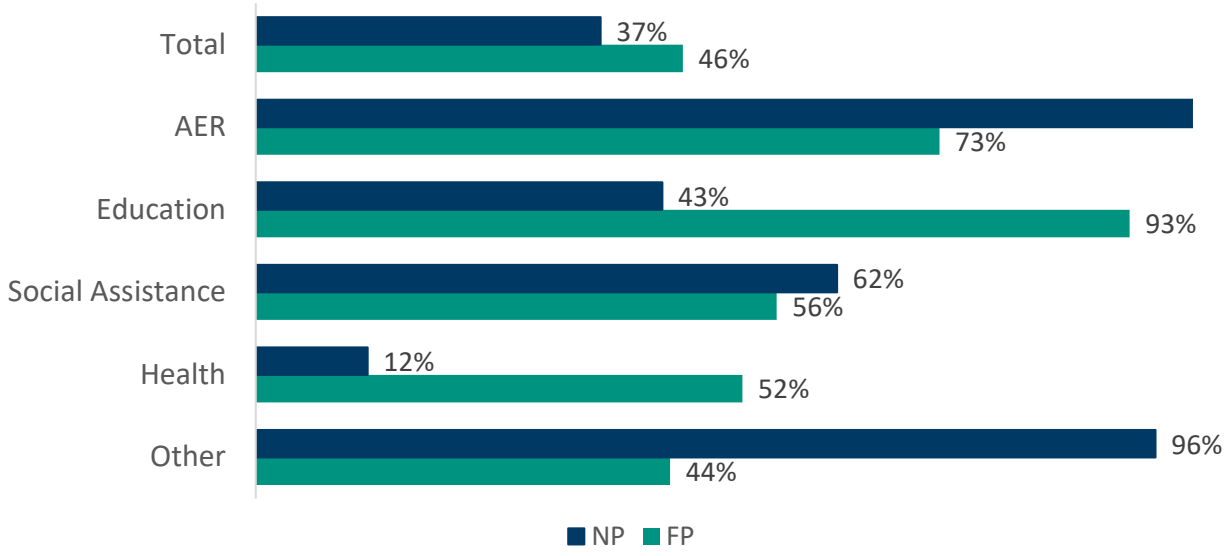


The PPP loans were primarily designated to cover payroll expenses, although funds could also be used for a variety of related expenses, such as employee health insurance and occupancy (e.g., utilities, mortgage payments, rents) as well as refinancing and debt payments. Of the $9.5 billion PPP loans to Indiana employers, some $9.1 billion (96 percent) were dedicated to payroll, with most of the rest covering employee health insurance and utilities (1 percent each). Nonprofits were equally likely to use the PPP loans for payroll as were for-profits.

PPP Coverage of Jobs – The PPP loans helped keep more than 1.3 million Indiana residents employed, according to the number of jobs reported by PPP loan recipients. By way of context, our estimate from the QCEW data suggests that private establishments employed 2.1 million workers on average per quarter in 2020, so the PPP loan program may have covered as much as 46 percent of all employees. However, we caution that both sources of data may double-count some employees – those working for more than one establishment.

Overall, the PPP loans appeared to have covered a larger share of for-profit than nonprofit employees in Indiana (46 percent vs. 37 percent). However, the coverage gap varied considerably across the major nonprofit industries. As Figure 11 shows, the PPP program covered a notably higher percentage of for-profit than nonprofit employees in health care (52 percent vs. 12 percent) and in education (93 percent vs. 43 percent). Most likely this reflects the concentration of nonprofit employees in large institutions not eligible for PPP loans in those two industries – respectively hospitals and universities and colleges, as we noted above. By contrast, a somewhat higher percentage of nonprofits jobs were covered by PPP loans in social assistance (62 vs. 56 percent) and especially in AER (100 percent vs. 73 percent).[19]

Figure 11. PPP jobs as % of average quarterly QCEW jobs by industry and sector, Indiana



[19] The PPP jobs are computer as a percent of the average quarterly number of jobs in a particular industry by sector. Because the number of jobs declined over 2020 due to the pandemic, the very high percentage in AER (actually, just over 100 percent) reflects the fact that the QCEW jobs are computed as the average quarterly number of employees, and as we showed earlier (Figure 3), the total number of AER employees dropped by 14 percent between the first and fourth quarter of 2020.

We caution that these are rough estimates only, given the likely errors in how establishment industries are coded in the PPP loan data. In addition, as Figure 2 showed earlier, the rate of unemployment increased dramatically between March and April before declining slowly through the end of 2020. We used the average quarterly count of employees from the QCEW data as the base for the percentages in Figure 9 and this average is lower across the board than the number of people employed in Q1. Consequently, the percentages in Figure 9 may overestimate how well the PPP loans protected Indiana employees after the pandemic hit.[20]

SUMMARY AND CONCLUSION

We draw several major conclusions from our analysis. First, COVID-19 had a major negative impact on Indiana nonprofit employment in 2020. Indeed, this is the first year since 1995 when nonprofits lost jobs. Of course, COVID-19 was a fundamentally different recession than the two in the previous 25 years (2001, 2008-09). Not only did it start abruptly, but it spread very quickly across almost all industries, including those in which nonprofit jobs are concentrated and not primarily industries dependent on discretionary consumer spending as had been the case during prior recessions.

Second, despite the loss of nonprofit jobs between 2019 and 2020, total nonprofit payroll increased. This is an unexpected finding, perhaps reflecting a shift from part-time to full-time employees, a tendency for employers to protect higher wage workers with essential skills from layoffs, and/or greater competition for workers with special (and more expensive) skill sets. However, the growth in payroll was at least in part made possible by major efforts to soften the impact of the pandemic on the U.S. economy. There were important philanthropic initiatives, but the Payroll Protection Program (PPP) of the CARES Act was likely of greater importance in softening the impact of COVID-19 in Indiana with its massive influx of $9.5 billion in 2020 (another $4.4 billion in PPP loans to Indiana establishments were approved in 2021).

Third, the support provided by the PPP loans appears to have impacted for-profits differently than nonprofits. Since nonprofits account for 12 percent of total private payroll in Indiana, we would have expected them to receive the same share of PPP loans. That was not the case – they received only 8 percent of the loan dollars. We don't know the reasons for such discrepancy. Perhaps some of it reflects the problematic quality of the PPP loan data we described earlier. Possibly, the financial institutions processing the PPP loans (and/or the SBA approving the loans) possibly were more accustomed to dealing with (and/or more concerned about) the viability of for-profit establishments than nonprofits. Or perhaps nonprofits were less likely to have established financial relations with the large banking institutions that took a major role in processing PPP loans very early.[21] However, the result of this disparity is that PPP loans covered only 5 percent of nonprofit total payroll for 2020, compared to 8 percent of for-profit payroll. However, the problematic quality of the PPP loan data may also have played a role.

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[20] We experimented with a more conservative estimate by computing PPP jobs as a percent of the number of employees by industry and sector in Q1, before COVID hit. Those percentages are about 2 percentage points lower overall and for for-profit health care, about 3-5 percent lower for social assistance and for nonprofit education and AER, and notably lower for for-profit education (8 percentage points) and AER (11 percentage points).

[21] See Li, Lei and Strahan, Philip, "Who supplies PPP Loans (and Does It Matter) Banks, Relationships and the COVID Crisis. Working Paper 28286, National Bureau of Economic Research, December 2020. Online at https://www.nber.org/papers/w28286.

Fourth, there are major industry differences in how much nonprofits benefitted from the PPP loans compared to for-profits in terms of loans as a percent of total payroll. Thus, loans were more important to nonprofits in AER than to for-profits in that industry, but more important to for-profits in health and education than to nonprofits in those industries. There are also notable differences in how much nonprofits benefitted from the PPP loans by industry – loans covered a larger percent of total payroll for nonprofits in AER (21 percent) and social assistance (13 percent) than in education (7 percent) and health care (1 percent).

Fifth, for the comparatively few nonprofits that received PPP loans, the average loan was larger ($159,000) than the average loan for-profit loan ($113,000). Possibly this simply reflects the preponderance of very small business-establishments, e.g., sole proprietors or family businesses with only a few employees.[22] Thus more than half (56 percent) of small business establishments (defined as those with less than 500 employees), have less than five employees. By comparison, we estimate that 45 percent of Indiana nonprofits with any paid employees have less than 500 employees.[23]

Sixth, nonprofits on average received much larger loans than for-profits in education and health care (by a factor of 5 or more), than in AER or social assistance (by a factor of 2 or more). That discrepancy is partly explained by the fact that nonprofit PPP loan recipients report many more jobs on average than for-profits in health care (82 vs. 16) and education (52 vs. 12). Overall, nonprofit loan recipients report almost twice as many jobs per establishments than for-profits (23 vs. 13 jobs on average per establishment) as well as for establishments in social assistance (33 vs. 18) and AER (25 vs. 12).

Seventh, when we adjust for the number of jobs covered by PPP loans, the average loan per job is lower for nonprofits than for-profits ($6,700 vs. $8,600) for all industry combined and for health care ($7,700 vs. $9,800). However, for social assistance and education, the average loan per job for nonprofits is higher than it is for the for-profit counterparts in those industries.

As these findings indicate, the impact of PPP loans is complex. On some dimensions (e.g., share of loans and loan dollars) nonprofits appear to have benefitted less than for-profits. On other dimensions, such as average PPP loan per number of employees, nonprofits appear to have benefitted more than for-profits (except for health care). Moreover, there are notable differences across industries.

Finally, we have much concern about the accuracy of information contained in the PPP loan database, undoubtedly reflecting the urgency of needs created by the Pandemic and the speed with which loans were processed by the SBA. However, we assume the bulk of PPP loan dollars have been correctly coded in terms of types of entities receiving the loans and types of industries.

[22] See U.S. https://www.zippia.com/advice/small-business-statistics/#Small_Business_Employees.
[23] This estimate is based on a large survey of Indiana nonprofits completed in 2017-2018. Of 850 respondents who provided information on paid employees, 38 percent have no paid employees at all. For more information, see https://nonprofit.indiana.edu/research-results/indiana-nonprofit-surveys.html and https://go.iu.edu/2bfi.

APPENDIX A: QCEW METHODOLOGY

As described below, the Quarterly Census of Employment and Wages (QCEW) does not identify nonprofit establishments, while the IRS Exempt Organization's Master File/Business Master File (EOMF/BMF) includes a list of organizations recognized as tax-exempt by the IRS. We use both sources to construct the best possible estimate of nonprofit employment in Indiana. However, both have major limitations.

Scope of Data

The QCEW is a cooperation between the U.S. Bureau of Labor Statistics, the U.S. Department of Labor, and State Employment Security Agencies. In Indiana, the Department of Workforce Development works with the Indiana Business Research Center (IBRC) to produce quarterly counts of employers, employees, and wages for the state, Metropolitan Statistical Areas (MSA), Economic Growth Regions (EGR), and counties by industry as defined by the North American Industry Classification System (NAICS). Nationwide, the QCEW covers over 95 percent of U.S. jobs.[24]

The BMF lists all tax-exempt entities registered under section 501(c) of the Internal Revenue Code. Among other fields, it includes the exempt entity's name, reporting address, Federal Employer Identification Number (EIN), and the Internal Revenue Code Subsection under which it is recognized and registered by the Internal Revenue Service. We include all twenty-six subsections of 501(c) entities in the BMF, of which most (74 percent in Indiana) are registered under subsection 501(c)(3) and are commonly referred to as charities. Nationally, the BMF includes 1.8 million exempt organizations.[25]

Data Processing and Cleaning

The Indiana Business Research Center (IBRC) at Indiana University reconciles the data in the two sources using EINs to identify nonprofit establishments among private establishments in the QCEW files. IBRC then aggregates the data by industry, region, and sector (nonprofit, for-profit, and government), and applies legally mandated confidentiality screens. Specifically, data are suppressed if the aggregate includes less than three establishments, if one establishment comprises more than 80 percent of the employment of a data grouping, or if suppressed data can be estimated from other available data. We standardize the names of data fields, compute annual counts of establishments, number of employees, total payroll, and average annual wages by industry and subindustry for all sectors, and by region.

Limitations

The QCEW covers an estimated 95 percent of all paid employees.[26] However, certain employees are not required to participate, including religious organizations and charities with less than four employees.[27] These omissions from the QCEW data are important for our

[24] The U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages. United States Department of Labor, 2020. Available at https://www.bls.gov/cew/, retrieved January 13, 2020.
[25] Internal Revenue Services, Exempt Organizations Business Master File Extract. Internal Revenue services, 2019. Available at www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf, retrieved November 15, 2020.
[26] The U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages. United States Department of Labor, 2020. Available at https://www.bls.gov/cew/overview.htm#data_available, retrieved February 10, 2020.
[27] Exceptions include proprietors, unincorporated self-employed, unpaid family members, certain farm and domestic workers, certain railroad workers, some workers who earned no wages during the entire applicable pay period (e.g., because of work stoppages, temporary layoffs, illness, or unpaid vacations), select elected officials, members of the armed forces, certain short-term government employees. In Indiana, insurance agents on commission, casual labor

analysis since it means we underestimate nonprofit employment in Indiana. To quantify the extent of the underestimation, we rely on data obtained from our large 2017 Indiana Nonprofits Survey, based on a randomly selected sample of all types of Indiana nonprofits. This survey effort involved combining and de-duplicating nonprofits registered with the IRS under all sub-sections of 501(c), incorporated nonprofits from the Indiana Secretary of State (SOS), and Yellow Page Listing of Churches (Infogroup).[28]

The exclusion of religious organizations is likely to be most important source of underestimation. Congregations are neither required to register as tax-exempt entities with the IRS nor participate in the QCEW reporting system. We estimate that there are about 8,800 congregations in Indiana,[29] but only 174 were included in the QCEW data for 2019. Using a conservative estimate of 3 paid employees per congregation, the 8,800 congregations are likely to have at least 26,500 paid employees, but perhaps as many as 77,300.[30] The QCEW only reports 1,426 employees of religious establishments, suggesting that our estimate of nonprofit employees in Indiana is undercounted by at least 25,100 religious employees, but the true underestimate is likely closer to 75,800.

Charities with less than four employees are also not required to participate in QCEW. Based on the 2017 Indiana nonprofit survey, we estimate that there are almost 3,700 IRS-charities that are not churches and that have at least 1 but less than four paid employees. The survey also shows that these small charities employ an average of 1.7 employees, suggesting that there should be a total of 6,400 employees in the QCEW data. Although some of these are indeed included in the QCEW data, that is the case for only 943 establishments with 1,814 paid employees. Consequently, our estimate of nonprofit employees in Indiana is underestimated by about 4,600 employees.[31]

Finally, not every nonprofit in Indiana registers with the IRS, but some nevertheless are incorporated with the Indiana Secretary of State (SOS). As part of our efforts to develop the sample for our 2017 survey, we estimate that roughly 18,566 nonprofits were incorporated with the SOS, but not registered with the IRS. From our 2017 Indiana Nonprofit Survey, we estimate that about 14 percent of these (corresponding to about 2,700 nonprofits statewide) had employees with a median of 6.5 employees, for a total of roughly 17,200 employees.[32] If those

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not in course of employer's business, part-time service for nonprofits, student nurses and interns, and students working for schools are not required to participate.
Employment and Training Administration, ETA Overview. United States Department of Labor, 2020. Available at https://oui.doleta.gov/unemploy/pdf/uilawcompar/2019/coverage.pdf, retrieved February 10, 2020.

[28] The 2017 Indiana Nonprofits Survey allows a clearer picture of unaccounted nonprofit employees. Using the sample statistics, we estimated the mean and median number of paid employees per establishment. These numbers were then used on the de-duplicated universe of nonprofits in Indiana created using the IRS, Secretary of State, and Infogroup data. For more details, see "Surveying Nonprofits: Sampling Strategies and Quality, by Kirsten A. Grønbjerg, Ashley Clark, Hannah Martin, Tyler Abbott, and Anthony Colombo (Bloomington, IN: Indiana University School of Public and Environmental Affairs, November, 2017).

[29] The Infogroup (yellow page) listing includes about 9,600 congregations; de-duplication leaves just over 8,800.

[30] The underestimate of 25,100 employees is conservative as a result of using the median number of employees per congregation from the 2017 Indiana Nonprofit survey. Using the mean value of 8.75, the underestimation would be closer to 75,900 employees. The latter is likely more valid, since the 174 congregations included in the QCEW data for 2019 have an average of 8.2 employees, very close to the survey mean.

[31] The QCEW data show that charities with less than four paid employees on average have 1.92 employees. This is very close to average estimate based on the survey (1.7) suggesting that this underestimate is likely to be fairly accurate.

[32] The employee estimate is conservative using the low median of 6.5. The mean number of employees is 17.5 which suggests an employee count of nearly 46,000.

employers report to the QCEW system, they would be classified as for-profit employers under our methodology because their EIN is not included in the IRS BMF. It seems clear that the actual number of nonprofit paid employees is substantially higher, probably by at least 46,950 than the numbers we are able to document.

There are other potential sources of error in the QCEW data. Thus, the number of employees is measured by the number of filled jobs for the pay period that includes the 12th day of each month as reported by the employer. There is no distinction between part-time and full-time employees in this count. Under this system, a person working two jobs would be double counted.

Similarly, the BMF used to identify nonprofits in the QCEW data is not comprehensive. Some nonprofits are not required to register with the IRS as exempt entities. In addition to religious organizations, nonprofits with less than $5,000 in revenues, political groups, and homeowners' associations do not need to register.[33] Unfortunately, we can only identify private establishments as nonprofits in the QCEW data, if they are registered with the IRS; all other nonprofits that have paid employees in the QCEW data will by necessity be classified as for-profit establishments.

In addition, some for-profit companies may have nonprofit subsidiaries and the QCEW would not identify the subsidiaries as nonprofit in their records. The reverse is also true – if nonprofits have commercial subsidiaries, the latter would be counted as a nonprofit. Regarding wages, the QCEW counts bonuses, stock options, the cash value of meals and lodging, and tips and gratuities in addition to wage. However, fringe benefits (such as employer contributions to health insurance or pensions) are not included.

Finally, the IRS status in the EOMF is as of March or April of the data year in question. Any newly registered exempt entities may not be included, since the process to identify nonprofits may take up to several months. We believe the error is relatively insignificant, but we cannot confirm that assumption. The same situation occurs for entities that convert to for-profits during the data year. Then, although the EOMF lists them as nonprofits, they technically would cease to be nonprofits during the year. In either case, if these entities have employees and payroll during the year, they would be counted as for-profits. These limitation leads to discrepancies between the true count of Indiana nonprofit employment and the estimates developed by the Indiana Nonprofits Project.

[33] Internal Revenue Services, Tax-Exempt Status for Your Organization. United States Department of the Treasury, 2020. Available at https://www.irs.gov/pub/irs-pdf/p557.pdf, retrieved February 10, 2020.

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