

2015 pôrtfô'liō

**Culture  
Across  
Communities**

AN ELEVEN-CITY SNAPSHOT

GREATER PHILADELPHIA CULTURAL ALLIANCE 2015 Portfolio Culture Across Communities AN ELEVEN-CITY SNAPSHOT



# President's Letter



Maud Lyon

In my travels across the country, it is abundantly clear to me that arts and culture are the lifeblood of our communities, and an important part of our civic identities. Creative energy fuels neighborhood revitalization efforts, empowers our students, draws tourism, and provides significant economic impact.

The Cultural Alliance's *Portfolio* research series has long been renowned for its analysis of the health of Philadelphia's arts and culture sector, and used as a research model and point of reference for other regions. With this latest edition of *Portfolio*, we wanted to extend this resource to benefit other communities by looking at the national picture.

**2015 Portfolio: Culture Across Communities** investigates the health and scope of nonprofit cultural sectors in 10 additional major metropolitan areas, examining them not just individually, but also in relation to each other.

This cross-regional analysis would not have been possible without the support of our peers in the Bay Area, Boston, Chicago, Cleveland, Los Angeles, New York, Phoenix, Pittsburgh, Twin Cities, and Washington DC. We're also grateful to our core funder the Doris Duke Charitable Foundation, with additional support provided by The Pew Charitable Trusts and the William Penn Foundation; the Cultural Data Project for providing access to its invaluable national database that formed the core dataset for this report; Metro Metrics; and our designer, Joel Katz Design Associates.

We are proud of our Cultural Alliance staff, who worked so hard to produce *Culture Across Communities*: John McInerney, who wrote and edited the report; Morgan Findley, who along with Metro Metrics, conducted the core research; and Theresa DeAngelis, the project manager who made it all come together. In Development, special thanks to Kelli Paul; in Marketing, Courtney Risch; and in Policy, Michael Norris. Thanks also to Stuart Adair in Finance & Administration, for managing the complex funding that made this report possible.

Please read this report, and share it with funders, advocates and legislators. While there is both encouraging and challenging implications from this research, the underlying impact of our collective work underscores the importance of continued investment in arts and culture. I urge you to spend time thinking about the implications of the trends and conditions reported here, not just for your city, organization or discipline, but for the future of arts and culture in the United States.

## **Maud Lyon**

President

Greater Philadelphia Cultural Alliance

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# Executive Summary

**The nonprofit cultural sector is one of America's most important and unique assets.**

This report examines the heart of the nonprofit cultural sector across 11 of the country's major metropolitan regions. Using Cultural Data Project (CDP) information, we examined 5,502 organizations, which collectively have 906,000 paid and volunteer positions and spend \$13 billion annually. The communities examined had a collective population of over 75 million residents, 23.7% of the total population of the country.

Our goal was to understand the distinctive and shared attributes of the cultural communities across every metro region and 11 distinct disciplines. What are the underlying trends running across all metro regions and disciplines? Are communities recovering from the Great Recession? Where are the pressure points for the sector? What are the challenges and opportunities for specific disciplines? What trends are impacting the long-term health of all cultural nonprofits?



**Total Revenue, Attendance, Net Assets, and Endowments all increased from 2009 to 2012.**

Keeping in mind that all data has limitations and that our snapshot represents only a portion of the full scope of creative activity across the country, our analysis nonetheless revealed both expected and surprising findings.

## **The nonprofit cultural sector is recovering from the Great Recession**

Our trend data, measuring change from 2009 to 2012 on almost 3,000 organizations, showed that groups were reversing the declines in both revenue and Net Assets lost from 2007 to 2009.

- Revenue was up 7.0%, the sector increased Net Assets 7.6%, and Endowments rose 13.7%.
- Profit margins in aggregate were positive, with a surplus of 3.2% in the most recent FY.
- Total attendance was also up, increasing 3.0%, hitting 210 million in 2012 across all 11 metro regions.

Clearly, groups are making strides in recovering from the losses in audiences and revenues during the Great Recession.

## **Earned Income drove the sector's recovery**

The gains in revenue across the sector came primarily from Earned Income. Strong returns on Investments, coupled with gains in almost every major source of Earned Income, underscored the importance of earning for cultural nonprofits, especially in times of shifting priorities in philanthropy.

- Earned Income was up 25.4% from 2009 to 2012
- Admissions/Tickets/Tuitions continue to be the most important source of Earned Income across all budget sizes and is the single largest source of income across both Earned and Contributed Income.

**Earned Income was up 25.4%.**

- Rental Income was up 26.8% and revenue from Memberships, Tickets, Admissions, and Tuitions were all up between 2.6% and 9.1%.
- The only significant decline in Earned Income was from Subscriptions, where revenue dropped 13.1%.

## Despite the aggregate health of the cultural sector, many groups struggled

Despite increases in revenue and attendance, almost 1 in 5 organizations reported deficits greater than 10%.

Margins overall were positive, with groups having an aggregate surplus of 3.2% on \$13.5 billion in Unrestricted Revenue. There were also surpluses in every budget category and across most disciplines and metro regions. Only Very Large History and Very Large Music organizations saw deficits greater than -1.0%. Across metro regions, only Los Angeles, Phoenix, and Washington DC had deficits in the Most Recent FY.

However, as we have seen in our research in Philadelphia since 2006, those aggregate numbers don't reveal the level of deficits at the organizational level.

- A significant proportion of individual groups, 42.0%, reported deficits in the most recent FY, with 1 in 5 (18.7%) reporting deficits greater than 10%. This finding was consistent across every community and every discipline.
- Additionally, overall spending was flat, with a 1.6% decline in spending overall and 6 of 10 of the metro regions and 7 of 11 disciplines reducing spending.
- While overall paid positions increased slightly, 1.4%, virtually all that growth was in part-time positions. Full-time employment remained virtually flat at 0.1%.

Clearly, despite strong gains in aggregate, many groups struggled to balance budgets, reducing spending and shifting labor to part-time positions.

Despite increases in Board and Foundation Giving, contributed support declined 3.5%.

## Contributed Income declined since the recession

All major sources of Contributed Income, other than Foundation and Board Giving, declined from 2009 to 2012.

- Contributed Income, which makes up 46.9% of Total Revenue, declined 3.5% from 2009 to 2012 despite increases in Board giving (+20.3%) and Foundation giving (+9.2%).
- Individual giving declined 9.7% and Corporate funding declined 7.0%
- Only 3 of the 10 Trend metro regions saw increases in Contributed funding (Bay Area, Boston, and Pittsburgh).
- The majority of disciplines reported declines in Contributed Revenue with the exception of significant increases in Contributed Income in three disciplines—Museums, Science & Nature, and Theater.
- While Board giving (+20.3%) and Foundation giving (+9.2%) increased, there were steep declines in government funding (-27.9%) with local, state, and federal funding all declining significantly (see Graph 11, page 24).





# Implications for the future

Arts and culture remains at the heart of our civic life. Creativity, community diversity, our collective history, and individual artistic expression are key elements to a rich, open, and inclusive society. Yet the rapidly shifting environment has challenged the nonprofit cultural community like never before. If we are to remain vibrant, relevant, and inclusive, we must focus on how we can positively impact our communities while confronting the many challenges we face in terms of sustainability and audience development.

Given the findings in this report and these challenges, where might we go from here? There are many strategies that can be embraced to ensure we remain viable and vibrant; here are several that we think are particularly important.

## Individuals are key

More than any other time in our history, the power of the individual is all encompassing. This is particularly evident in our report. If you combine all donations and transactions, over 45% of total revenue comes directly from individuals. When you add in the impact of volunteers, which fill 7 out of 10 staff positions at cultural organizations, that impact is undeniable. Unfortunately, Individual giving revenue, total Members, and total Subscribers all declined. Engaging the next generation of cultural consumers and donors, and reversing these trends, will be critical.

Yet, the arts and culture sector has opportunities to expand its reach. According to the NEA, while half of all Americans attended a live performing arts or visual arts event in 2012, another 13% of Americans reported they had wanted to attend a cultural event but didn't because of factors like time, pricing, or having no one to go with. Those "interested non-attendees" represent 31 million potential new cultural participants. If cultural organizations can overcome those identified barriers and actively welcome new audiences, we may be able to reverse some of the current trends in arts participation.

## We need to build the next generation of donors

The double-digit declines in government and Corporate support documented in this report are trends that we have seen in our cultural studies of Philadelphia since 2006. Those trends seem systemic and may be very difficult to change. However, the almost 10% decline in Individual giving was more troubling, in particular when

compared to broader measures of Individual giving such as recent reports from Giving USA and Blackbaud that document increases in overall Individual giving across the country during that same time.

There are some broader societal trends that are impacting Individual giving including the decline in arts education and lack of exposure to the arts, the shift from funding organizations to funding informal projects, and the rising popularity of online crowd-funding platforms. However, nonprofit cultural groups that embrace new strategies can potentially increase Individual giving. Giving Tuesday, the Tuesday after the Thanksgiving holiday, has emerged as an effective online strategy for cultural nonprofits, and giving has increased every year since its launch in 2012, raising over \$45 million in 2014 through shared online giving platforms. Embracing programs like Giving Tuesday and having responsive mobile websites and easy steps for online giving will be critical as donor engagement and giving increasingly happens online.

Our messaging is also key. Half of respondents to a recent Nielsen survey said they donate to organizations that are engaged in social or environmental activities. Many donors—even those who attend cultural events—perceive the arts as an amenity, while other causes capture their philanthropy. We must do a better job of conveying the social impact of our sector and our contributions to education, literacy, community development, making communities more inclusive, the environment, and other social issues.

## Cultural experiences need to be technically sophisticated and socially relevant

Unfortunately, the ability to effectively engage individuals is more challenging than ever. Attracting participation is not merely a matter of communication—it requires innovation in content and delivery as well. Cultural groups need to compete in a technologically complex service economy where access to commercial entertainment is accessible, often for free, 24 hours a day. Streaming, online social sharing, crowd-sourcing, and other technology applications have upended how cultural content is produced and distributed. People increasingly expect smart technology to know their preferences and interests, and if information is inaccessible or slow they move on. Our core



## In God We Trust, all others must bring data. —W. Edwards Deming

nonprofit cultural sector has struggled to respond to these shifts in cultural consumption. Since the majority of cultural organizations are small, it is difficult to reach economies of scale and to raise funds for digitization, information technology systems, and the skilled staff to maximize their use. The cultural sector must think about audience development as a collective issue, collaborating not only on programming but on data systems and marketing.

Arts and culture organizations also need to embrace technological means of sharing content. The MONA museum in Tasmania, for example, uses Radio Frequency ID technology when you visit, then tracks your path through the museum and provides you with a post-visit 3D rotational view of your visit path through the galleries. Not only is that a great way to document your experience, but it is a compelling incentive to share socially. Opera Philadelphia's recent production of *Andy A Popera* included videostreams of the audience, and an invitation to the audience to photograph the performance with their cell phones. However, we should also find ways to both capitalize on and celebrate the authentic, human experience of live artistic performance, or of standing in the presence of an original painting. Authenticity is likely to become more precious as technology brings greater social isolation. We also must remember that cultural events are both artistic and social experiences. We must design programs that enable audiences to connect with each other and with unique content that celebrates creativity, and share humanity across diverse audiences. In a world that is increasingly virtual, we can offer a counterbalance that is real and fully present.

### Successful organizations embrace knowledge-centric practices

Underlying many of our recommendations is the assumption that organizations embrace data in their decision-making process. Given the rapid increase in availability of audience and donor data and the ability to carefully segment and target communications through digital marketing, a knowledge-centric approach to decision making will be a key strategy for effective organizations. Drexel University Professor and Research Director Neville Vakharia (an adviser to this study) documented the importance of this issue to cultural organizations in *Grantmakers in the Arts Reader* (Vol. 24, #3): "The key challenge facing arts organizations is that many organizations are not able to gather,

collect, or report on even the fundamental data needed to inform their decision making." Better data collection, strong analysis, and information-driven decision making can be instrumental in helping cultural organizations adapt to changes in the environment on every level.

### The future of arts and culture nonprofits

Our nonprofit cultural sector is at a critical juncture. Current leaders, primarily Baby Boomers, are slowly transferring leadership to a new generation of arts leaders. Technology and culture itself has fundamentally shifted from traditional patterns and the canon of repertoire. Cultural participation is just as likely to occur online or in an informal setting as it is in traditional venues. Informal and for-profit socially focused organizations have increased in number, and the traditional structure of the nonprofit is no longer the sole model for mission-based cultural activity.

However, if we are to preserve museum collections and live collections in zoos and aquariums; operate concert halls; have orchestras and dance and theater companies that hone their craft over years; and have effective arts education programs for children, we need to have nonprofit organizations to steward these activities. One of the trends we see is that the costs of preserving, presenting, and producing arts and culture continue to rise. While Earned Revenue covers a majority of the cost, contributions must make up the balance. To attract both audiences and support, cultural nonprofits must evolve, become more community focused, and broaden their impact in society.

As our world becomes increasingly divided, with greater wealth but a smaller middle class and larger numbers of people who struggle to get by, arts and culture can play an important role as a unifier and an essential vehicle for learning and dialogue. Arts and culture makes us human. Education levels the playing field. Keeping arts and culture strong is not merely to preserve art forms, it is to nurture the cohesiveness of our communities and our creative spirit.

We hope this report and these findings can inform civic and cultural leaders, and have an impact on the priorities and goals of a sector that, unlike any other, continues to inspire, support, and bring together our rich and diverse communities.