INCOME FOR THE CULTURAL COMMUNITY:
An Overview of the *Who Pays for the Arts? Income for the Nonprofit Cultural Industry in New York City* Study Findings

Presenter: Catherine Lanier, director of research, Alliance for the Arts

András Szántó, deputy director, National Arts Journalism Program: Catherine Lanier had worked on some of the most extraordinary pieces of research-based advocacy for the arts in New York, the Port Authority studies of 1983, '93 and '97. This study, in a way, follows in the footsteps of those studies, but whereas the Port Authority studies focused on spending on the arts, this focuses on income.

Lanier: In preparation for the panels that we will have here today, I wanted to walk you through the results of the study that we conducted last summer. The results are more than a little dated now, especially with the dramatic changes that Sept. 11 and the recession have caused. But it is important to remember and quantify the specifics of income to the cultural sector during the pre-Sept. 11 period.

This report is based on application and final report data from organizations applying to the Department of Cultural Affairs for funding. Five hundred seventy-five organizations gave 1999 data, which were analyzed to give a snapshot of that year. Of these, 334 were funded by DCA over the entire study period, '95 to '99, therefore yielding trend analysis for the period.

The [New York nonprofit] cultural sector includes a handful of very large organizations with budgets over $10 million that garnered 71 percent of the total income. Most of the rest of the income goes to 124 organizations with budgets of over $1 million. Most of the organizations studied—422 out of the 575—had incomes of $1 million or less, and these accounted for only 7 percent of the total income.

I'm going to talk a lot this morning about patterns of income by budget size. This is not to be divisive, but because if we don't segregate out the small ones, their income patterns will be lost because of the dominance of the large ones. And as we will see, the income patterns and trends are very, very different among the size groups: more so than in the discipline or location breakdowns.

These are the 29 very large organizations. It's a familiar group—the Metropolitan Opera, the Metropolitan Museum, the Museum of Natural History, they're all familiar to all of us.

In terms of discipline, the study sample includes 323 performing arts organizations, 112 visual arts organizations, seven zoos and botanical gardens, and 133 others, a real grab bag of arts councils, multidisciplinary groups and arts service organizations.

This map is pretty hard to read at this distance, but two-thirds of the 575 groups—383 to be exact—are located in Manhattan. I'd like to make a parenthetical point about these Manhattan groups. I'm sure you're all aware of it, but it bears repeating. While it is true that most of the large groups are located in Manhattan, and that Manhattan groups account for 83 percent of the total income of these groups, it is also true that most groups in Manhattan are not large or very large. The remaining 183 groups are spread among the other boroughs. 66 are in Brooklyn, 60 in Queens, 43 in the Bronx and 24 in Staten Island.

In 1999, total operating income for the 575 groups was $1.5 billion. Earned income accounted for just over half this income stream, with admissions accounting for 21 percent and other earned income accounting for nearly 30 percent. "Other earned" in this report included endowment income as well as space rental, gift shop, restaurant, parking and program fees. Private contributions accounted for 38 percent: most important among these were individual contributions at 16 percent, followed by foundation at 11 percent and corporate at 5 percent. The "other contributed" income, at 5 percent, is mostly fundraising benefits and miscellaneous other income, and so could be allocable to individuals and corporate, mostly.

Government support accounted for 11 percent of income. City was 7.5 percent; state, 2.6 percent; and federal, 1.2 percent. In all three cases, these streams include both the principal arts funding groups—like DCA, New York State Council on the Arts (NYSCA), National Endowment for the Arts (NEA)—and other city, state, and federal funding, including, in the case of the city, Board of Education funding.

These income patterns vary widely by budget size and discipline. The larger the organization, the more of its income is derived from earned income, and less is derived from government support. This said, it is also true that most government support goes to large organizations. Conversely, the smaller the organization, the more of its income is derived from government support and the less from earned income.

Within earned income, it is interesting to me how only the largest organizations derive much of their support from admissions. Very large organizations derive a quarter of their income from admissions, whereas the other budget size groups derive between 10 and 12 percent. Eighty-four percent of all admissions dollars are garnered by the 29 largest organizations that we showed you before.

In terms of discipline, performing arts organizations clearly derive more of their income [from ticket revenue] than visual arts: [performing arts groups] derive 32 percent of their income from admissions. Contributed income comprises a fairly steady proportion of each category's income.

The late '90s saw robust growth in the cultural sector, led by earned income, which grew by 30 percent. Growth in earned income was fueled principally by other earned income, which grew by 45 percent over the study period. It is important to note that most of this growth in other earned income occurred in the '95-to-'97 period and had slowed markedly by the '97-to-'99 period. Indeed, preliminary indications from '01 data are that this stream of income actually decreased slightly from '99 to '01.

Private contributions grew at a very healthy rate, reflecting the prosperity of the time. Individual contributions grew by 33 percent, although indications are that this has also slowed markedly. Corporate contributions grew almost 30 percent, and foundation income grew 11 percent.

Government support decreased in real terms during this period. City support was down 2 percent. We know, however, that since '99, there has been an increase in DCA funding. State support was up 21 percent, which was partly NYSCA, but partly "other state." Federal support was down 28 percent from a small base.

As this chart shows, the growth from '95 to '99 was pushed by increases in earned and contributed streams of income. This growth was already slowing down a bit over the study period, and it continued to slow over the next two years, to the end of fiscal 2001. Not surprisingly—given that the growth was fueled so heavily by earned income, and that earned income is most important to large organizations—large organizations grew most. Indeed, small organizations suffered a decline in income over the study period, while the 29 very largest organizations grew by 24 percent from '95 to '99. The growth rate slowed as budget size got smaller, and the small organizations' income actually decreased by 12 percent.

Each stream of income contributed to growth in large organizations and decline in small ones. Big increases in earned and contributed income in the very large and large organizations more than compensated for decreases or flattening in public funding. But for the small groups, modest increases in earned income could not begin to compensate for significant losses in contributed and government income.

Looking at the trends in earned income by budget size more closely, it is clear that the explosive growth in other earned income, fueled by increases in endowment income and the rapid development of profit centers within the largest nonprofit institutions, drove the growth of the cultural sector. While private contributions to the largest groups increased by 23 percent from '95 to '99, they decreased by 12 percent for the smallest groups.

Government funding decreased in real terms over the study period. As noted earlier, city funding decreased 2.1 percent, state funding increased 20.6 percent, and federal funding decreased 28.4 percent. Government funding accounted for 8 percent of income for very large organizations, 18 percent for large organizations, 19 for medium-sized organizations, and 28 percent for the smallest groups. Decreases in government funding from '95 to '99 were largest, for the most part, for smaller organizations. Funding to very large and large organizations remained relatively constant, while funding to medium-sized organizations declined by 9 percent, and to small organizations by 23 percent.

These trends that I have been describing have been relatively dramatic over the late '90s, but when we look back to data from almost 20 years ago, gathered for the first Alliance/Port Authority *Economic Impact of the Arts* study, we see that the answer to the question of the day—"Who pays for the arts?"—has fundamentally changed. The reality is that as the government's role has shrunk, it has been replaced in part by private contributions, but much more so by earned income. The balance of the diverse funding sources evident on the pie chart on the left has been overcome by a diminishing government role and a revolutionary growth in earned income.

QUESTION PERIOD:

Kinshasha Holman Conwill, director, *A Cultural Blueprint for New York City*: You've talked a lot, Catherine, about the big picture, but I'm really interested in some of the nuances. For instance, in terms of the breakdowns, with the very large organizations with budgets larger than $10 million, I question the notion that the different disciplines don't tell us different things. For instance, "admissions" is a museum term, whereas "ticket sales" is a performing arts term. The average ticket price [for a show] is a lot higher than the average cost of admission [for a museum]. And also, the kinds of organization within the categories [tells us something]. "Over 10 million"—within that $10 million group, am I right to assume that BAM's budget is a lot lower than the Metropolitan Opera's budget?

So what information is there in those interstices about the differences within those very large categories? I can understand the need to make them to start the discussion, but [would looking] within those big categories—at discipline and source of income—tell us some different stories?

Lanier: You're absolutely right, and this is just in the beginning. There's an endless amount of ways that you can cut it. I can tell you that of the 29—some of them, like the New York Foundation for the Arts, have no admissions. As I said earlier, performing arts organizations depend a lot more on admissions or ticket sales than visual arts groups. Within the 575 [groups studied], 25 cents of every admissions dollar goes to one very large performing arts organization that's among the 29—the Metropolitan Opera. So it's a very textured thing. You're right. Any one of these groups is a combination of disparate elements, even if we get a common denominator in order to analyze them.

Conwill: My last question, then: is the Alliance going to study some of that nuance further? Would you recommend that be studied? Within each of your cohorts, there's a lot to be learned about the texture of those numbers, so that you can really see what happens among the very large organizations, the large ones, etc.

Lanier: We don't have specific plans, but I think we would look to the field in order to help us shape those questions. If there are specific questions out there, we've got the data, and it's an easy thing to do. It's just a question of paring the list of questions to the things people are most interested in.

Peggy Ayers, executive director, Robert Sterling Clark Foundation: I have a question somewhat along the lines of Kinshasha's questioning, but it really relates to the category of earned income, and the degree to which you were able to tease out those sources of income that were non-related earned income, as opposed to related earned income. Were you able to differentiate at that level?

Lanier: The biggest disappointment to me is that other earned income was one large category. We had more detail only for the CIG, but not from the program groups. It's something that we're hoping to ameliorate as we go forward with the database, because it's a very important distinction—particularly the fact that endowments are included under other earned income.

Ayers: Endowment? So it's interest earned on endowment? I see. As I look at these two pie charts here, I'm quite struck by the fact that earned income has increased to the degree that it has. What do you attribute that to?

As the government's role has shrunk, it has been replaced in part by private contributions, but much more so by earned income.

—Catherine Lanier

Lanier: There's been enormous growth here. And when I say the government sector [is being diminshed], it's really more that earned income is growing—especially other earned income. This is a period in which the cultural organizations, particularly the largest ones, got very sophisticated about private and earned sources of income. The most visible part is what we see in the gift shops. You can't walk through a newly designed museum without going through a gift shop. In 1980, that would make your jaw drop. Now, you expect it. This was a source of income that was relatively untapped until 1980, so it's a newly developing business. And this data reflects that more than anything else.