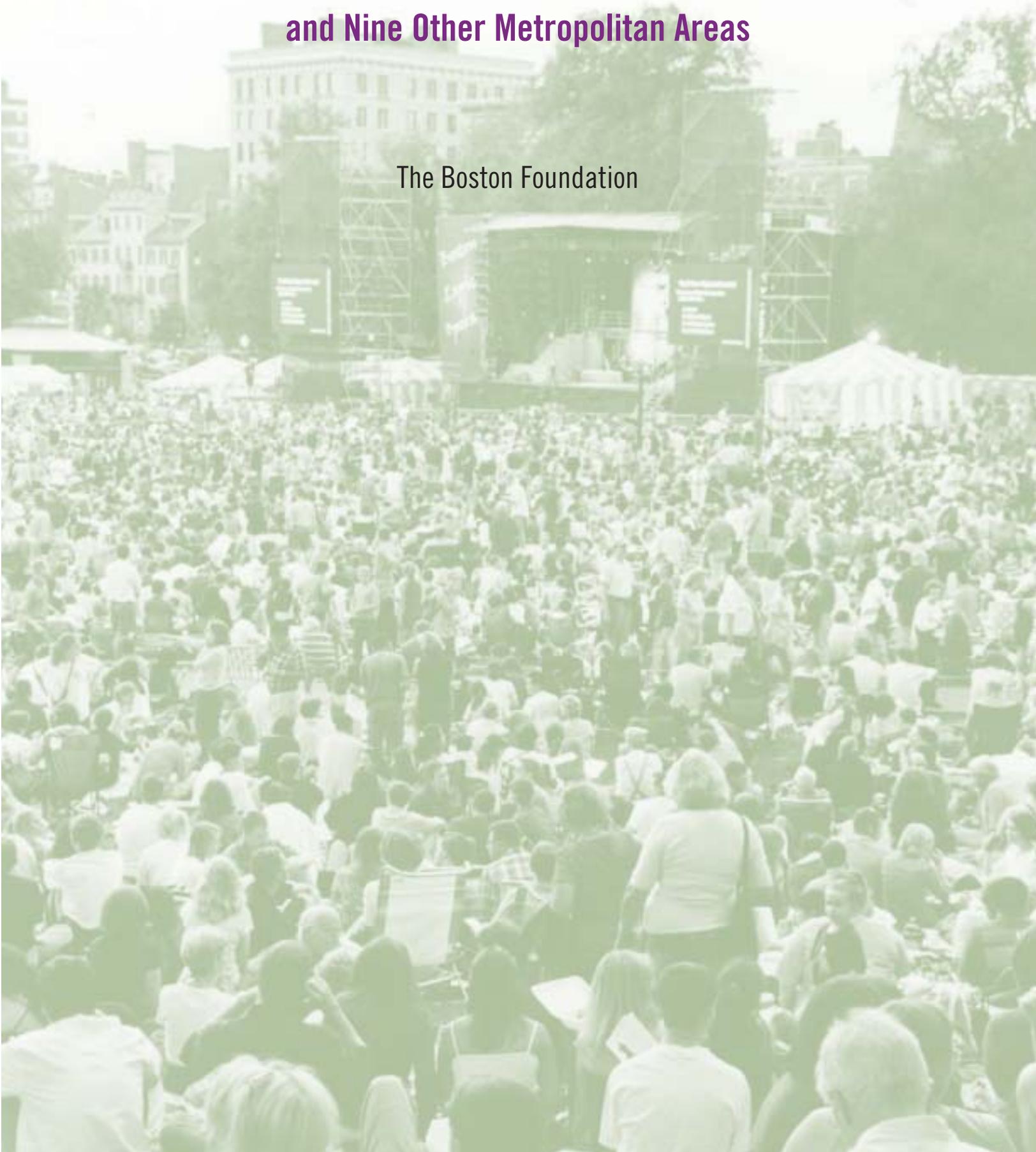


**Funding for Cultural Organizations in Boston
and Nine Other Metropolitan Areas**

The Boston Foundation



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The Boston Lyric Opera's September 2002 presentation of Bizet's *Carmen* attracted 140,000 people to two free performances on the Boston Common.

Preface

Arts and culture bring a great city to life. Artists and cultural institutions attract new investments and new residents, and so catalyze the growth of our neighborhoods and our regional economy. Millions of visitors come to Boston each year to see our historic sites, hear our fine orchestras, visit our renowned museums, and make tourism one of our leading industries. Cultural organizations of all sizes and types—large art and science museums, mid-sized theater companies and orchestras, and small visual arts organizations or choral groups—teach and inspire young people and help us bridge differences among our diverse population. As adults, our encounters with the arts have the power to transform us, prompting us to see, hear and think in new ways. Coming together through cultural experiences, we discover and understand our shared humanity. Art and culture is not a luxury. It is basic. Art and culture is essential to the educational, economic, and social fabric of our lives. The Boston Foundation is an enthusiastic supporter of our community’s arts and cultural opportunities.

This report grew out of our understanding of the importance of this region’s cultural nonprofits and from an acute concern for the long-term viability of the sector. Our largest, world-class institutions, as well as the smallest community-based organizations have pressing capital needs. A lack of suitable stages thwarts the growth of audiences, earned income and economic impact. The shortage of studio space hinders the creation of new work and the education of our children. We note a growth on the wrong side of the ledger sheet: deficits, deferred maintenance and lay-offs are increasing to the detriment of the quality of our lives and the vitality of our commonwealth.

The Foundation, a place of inquiry, exchange and action on the key challenges facing Greater Boston, commissioned this report to provide answers to several fundamental questions. How do we currently invest in this crucial industry? What is the impact of that investment on local cultural organizations? How does metro Boston compare to other leading cities across the country?

This study seeks answers by comparing the roles of public and private funding in the cultural economies of great cities across the country. It shows us what we intuitively knew: that we live in the midst of a very rich, complex and unequalled cultural environment. In fact, metro Boston has more cultural nonprofits per person than even New York. We should embrace this good news and celebrate the accomplishments of the artists, scientists, humanists and administrators that make it possible.

But we also learn that other regions commit more resources to arts and culture than we do. New York and San Francisco have found ways to invest many millions of dollars into their cultural economies. Even Pittsburgh, Seattle and Charlotte make larger investments in cultural sectors that are smaller than Boston’s. Our cultural organizations have come as far as they have thanks to the gifts of individuals. We applaud this generosity, even while understanding that it is not sufficient to meet our aspirations for our cultural institutions.

This study shows that our limited investment is, at best, preventing the region’s cultural institutions from realizing their fullest potential. At worst, it is threatening their very survival. As you read this report, consider how much stronger Boston will become when we commit public funding, both city and state, to our cultural economy. If we want to achieve our promise by realizing the maximum economic, educational and social benefits from this sector, then we must work together on strategies to nurture, support and grow our cultural assets.

Arts and culture have a crucial role to play in making this a truly great, unsurpassed metropolitan region. This report makes a clear case for the importance of pulling together on this key issue. We must seize the opportunity now to create a very different story tomorrow. Thank you for joining the debate that will shape a better Boston.

Paul S. Grogan, President and CEO, The Boston Foundation

Executive Summary

In early 2002, the Boston Foundation posed two questions: How does the financial support available for metro Boston’s arts and cultural sector compare to that of other regions across the country? How does that support impact the sector?

TDC, a nonprofit provider of technical assistance and management consulting services, was commissioned to answer those questions. Working with the advice of local cultural leaders and arts advocates, the research team collected information about metro Boston and nine other metropolitan areas with similar populations, thriving arts communities, and some of the highest art revenues per capita nationally. The ten metropolitan areas in the research project are:

- Boston
- Charlotte
- Chicago
- Cleveland
- Dallas
- Minneapolis-Saint Paul
- New York
- Pittsburgh
- San Francisco
- Seattle

Using existing studies as well as original qualitative and quantitative research, the study explored the following:

- How does funding for arts and cultural organizations in metro Boston compare—on a per capita and a per organization basis—to other metro areas in terms of:
 - ◆ Government funding at the federal, state and local levels;
 - ◆ Private and corporate foundation giving; and
 - ◆ Individual philanthropy?
- How do these differences impact the arts and cultural communities in each metro area? Where more resources are available, are organizations more financially stable?
- How does earned income contribute to the support of cultural organizations?
- Are there lessons to be learned from the ways that other communities support their cultural sectors?

The study focused on numbers. Issues of quality and artistic innovation, while of great interest, were beyond the scope of the research. While this report uses the term ‘arts’ or ‘cultural’ to refer to these organizations, the data refers to all agencies that

identify themselves on IRS Form 990 as ‘cultural,’ which include arts, science, historical and humanity groups.

The primary data source was the National Center for Charitable Statistics at the Urban Institute’s Center on Nonprofits and Philanthropy, which compiles information on all nonprofits reporting financial information on IRS Form 990. The study focuses on total “contributed” income reported on Form 990 (called “public support” by the IRS), including all private, foundation, corporate, and government gifts and grants. “Earned” income—ticket and shop sales, program fees, facility rental, as well as investment income—provides cultural organizations with another significant source of revenue; this data also comes from the Urban Institute IRS database. When corporations make gifts through their foundations, those contributions are captured in total foundation giving. However, corporate contributions made through marketing or other internal budgets are reported by nonprofit organizations as earned income.

Because the most complete data were available for 1999, it was used as the base year for all statistics. 1992 was used as a comparison year for growth trends. More recent data from 2000 were used to confirm trends and 2002 information was used when relevant and available. The study focused on entire metropolitan areas—Metropolitan Statistical Areas (MSAs), Primary Metropolitan Statistical Areas (PMSAs), and Consolidated Metropolitan Statistical Areas (CMSAs)—to ensure that the data reflected the reality of who uses and supports cultural organizations in any given region. Occasionally, the report refers specifically to a city, for example when it discusses city funding.

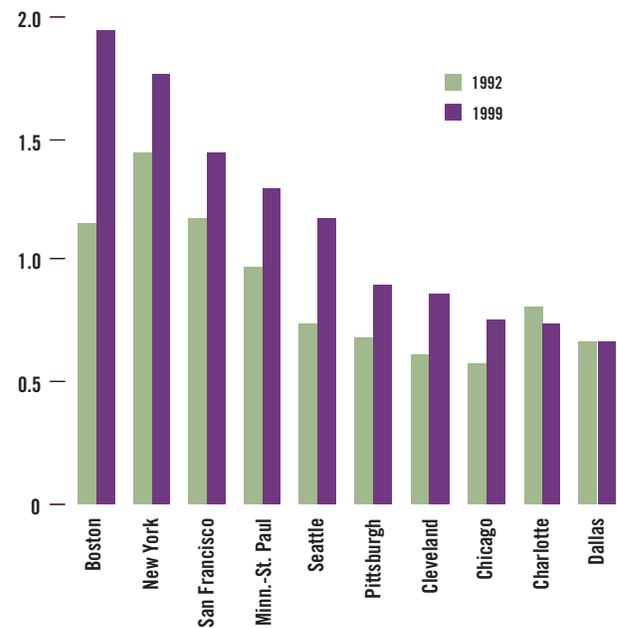
Additional statistics from the Census, the National Assembly of State Arts Agencies, Americans for the Arts, and the Foundation Center were also used. Interviews with local experts provided context and interpretation for the quantitative results.

Finally, it should be noted that all available data came with caveats. It is therefore important to look at the study as a relatively accurate picture of existing cultural funding and trends, not as a table of absolutes. Even with that caution, the study yielded both expected and surprising answers.

Metropolitan Boston has a very broad and deep arts and cultural community for a region of its size. Indeed, while Boston’s total population is closer to the smaller regions in this study—Charlotte, Dallas, Cleveland, Minneapolis-Saint Paul, Pittsburgh and Seattle—its total number of cultural organizations clusters most closely with Chicago, New York and San Francisco. This is likely due to the attributes of its population and to the maturity of its market.

Boston has a highly educated and relatively wealthy population that has many opportunities for active participation in the region’s cultural sector. In fact, **on a per capita basis Boston has the highest number of arts and cultural nonprofit organizations in the study group**, outpacing even New York (Chart A). In addition, Boston’s cultural community grew at the fastest rate over the course of the 1990s. Like all other metro areas in the sample, most of Boston’s cultural organizations have annual operating budgets of less than \$500,000. Not surprisingly, the growth in the number of arts organizations in metro Boston has largely been driven by increasing numbers of groups in this lower budget category. This finding suggests both a very entrepreneurial sector and modest barriers to entry into the cultural arts marketplace.

CHART A
Growth of Cultural Nonprofits, 1992 to 1999
 per 10,000 persons



Source: The Urban Institute, GuideStar-NCCS National Nonprofit Organizations Database, 1992, 1999.



PHOTOGRAPH: RICHARD HELDMAN

Steve Maler, seen here on the set of *The Tempest* in 2000, launched the Commonwealth Shakespeare Company in 1996, after completing his education at Harvard University’s Institute for Advanced Theatre Training at A.R.T. In July and August 2002, Commonwealth Shakespeare’s free summer performances of *Henry V* on the Boston Common were enjoyed by a diverse audience of 45,000. In that same year, about 5,000 people attended *Much Ado About Nothing*, the Apprentice Company’s *Tour of the Parks* production in Dorchester, Jamaica Plain, South Boston, North End and the Boston Common. The company also presented performing arts workshops, a residency at Charlestown’s Boys and Girls Club, and an internship program for older teens and college students. Its annual 2002 budget is about \$500,000.

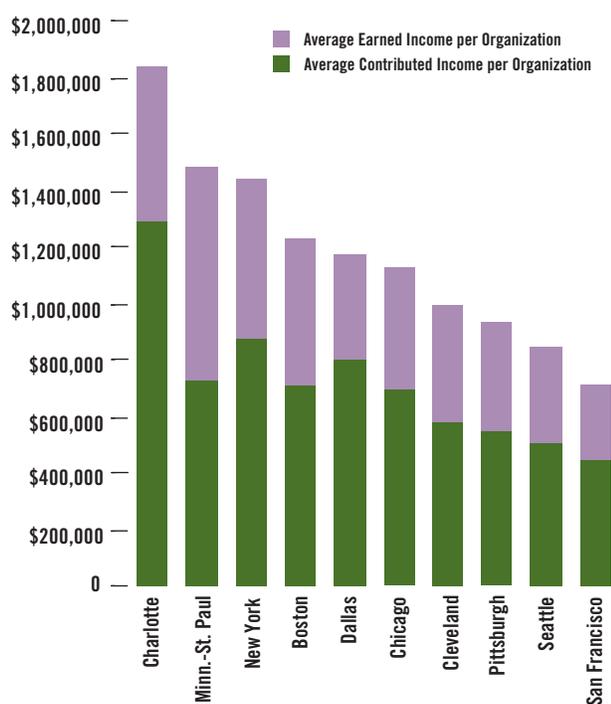
Metro Boston’s cultural sector, with total contributed and earned income of more than \$800 million in 1999, has a significant impact on the state economy. The sector provides jobs for workers in the building trades, administrators, and creative workers of all descriptions. The Museum of Fine Arts, Boston employs over 1,300 people, making it one of the top 20 largest employers of Boston residents. The Museum is also a major restaurateur and retailer, infusing \$370 million a year in to the state economy.¹ Together, metro Boston’s 640 cultural nonprofits are a very significant employer and economic engine.

The ability of metro Boston’s cultural organizations to support their work through earned income—ticket sales, program fees, investment income—was not as strong as peer agencies in other cities. In spite of the comparative strengths of its cultural sector, **Boston ranked fourth of the ten metro areas in terms of overall income per cultural organization** (Chart B). Boston, however, was outpaced by Charlotte, Minneapolis-Saint Paul and New York.

Metro Boston’s cultural community experienced rapid growth in contributed income that was funded largely by the increased generosity of individuals. In 1999, the Boston metro region was second only to New York in terms of per capita contributed income for the arts. In addition, Boston’s level of total contributed income for arts organizations—over \$475 million—outpaced the rapid growth in the number of arts organizations. The majority of this income came from individual donors, and most of that went to larger organizations with budgets greater than \$5 million. The national reputation of these organizations, the sophistication of their fundraising efforts, and the local visibility of their offerings combined to attract a large and generous donor base.

While individual giving and earned income provide relatively strong sources of support, the study shows that Boston does not have the depth and breadth of funding mechanisms, most notably in the level and structure of foundation and government resources, that many of its peer cities have. Although metro Boston benefited from strong state cultural council funding in 1999, the region ranked at the low end of the sample for support from Massachusetts-based foundations and local government agencies. Now, state funding strength has been significantly undermined. In 2002 the Massachusetts Cultural Council budget was reduced by 62%, a cut that forced an equivalent reduction in the agency’s investments across the state. On the local level, Boston’s cultural sector lacks the dedicated taxes or revenue sources provided in Pittsburgh, San Francisco, and Seattle. An equivalent level of investment here would add about \$45 million to the region.

CHART B
Average Earned and Contributed Income per Cultural Nonprofit, 1999



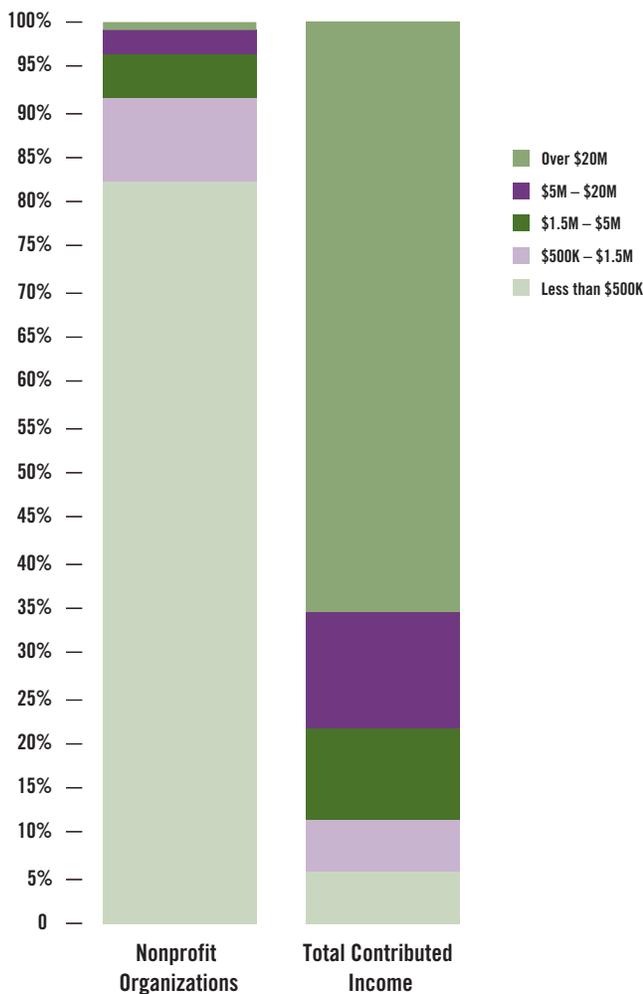
Source: The Urban Institute, GuideStar-NCCS National Nonprofit Organizations Database, 1999.

¹ Mt. Auburn Associates, Inc. and Economic Development Research Group, Cambridge, MA: Economic Impact of the Museum of Fine Arts, Boston, June 2002.

In Boston, 65% of total contributed income went to organizations with budgets greater than \$20 million (Chart C). In 1999, eight out of ten of the sample metro areas had organizations with budgets of more than \$20 million. Yet while this budget size represented only 1% to 2% of each marketplace, those institutions received a majority of funds contributed (Chart D). In contrast to Boston, San Francisco attracted about 25% less funding to its largest institutions despite having a very similar market.

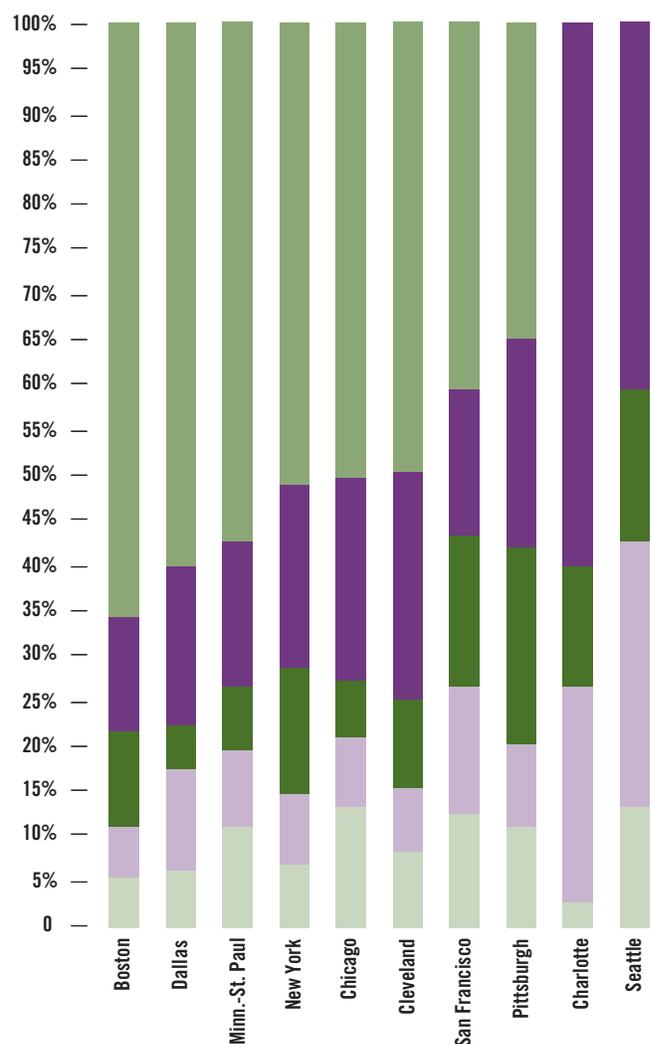
Limited foundation and government investments have the biggest impact on small- to mid-size organizations. The conventional wisdom, that organizations with budgets under \$5 million rely more on structured giving from foundations and government agencies, holds true; agencies with budgets less than \$1.5 million are especially reliant on these sources. It is also true that it is difficult and cost-prohibitive for smaller organizations to tap into Boston’s community of generous arts donors.

CHART C
Distribution of Cultural Nonprofits and Contributed Income by Budget Size in Metro Boston, 1999



Source: The Urban Institute, GuideStar-NCCS National Nonprofit Organizations Database, 1999.

CHART D
Distribution of Contributed Income by Budget Size, 1999



Source: The Urban Institute, GuideStar-NCCS National Nonprofit Organizations Database, 1999.

As a result of the lack of foundation and government funding, **Boston organizations with budgets under \$5 million show indications of poor financial health.** The data point to this conclusion in many ways:

- Boston’s cultural nonprofits with budgets less than \$1.5 million had the lowest average contributed income of any metro area in the study. Agencies with budgets between \$1.5 million and \$5 million did somewhat better, with Boston placing fifth in the sample.
- **Every group with budgets between \$1.5 million and \$5 million saw a decrease in actual giving per organization** when the numbers were adjusted for inflation.
- Cultural agencies with total budgets of less than \$5 million had a low ratio of contributed income to total budget. Organizations with budgets less than \$1.5 million had an especially low ratio of contributed income to total budget.
- Earned revenue, a positive indicator of high participation by individuals, was relatively strong, but did not make up for the lack of contributed revenue. Some organizations were engaging in deficit spending, indicating financial instability. Per organization and per capita, metro Boston’s smaller agencies with budgets under \$1.5 million had the highest incidence of negative net worth in the sample.

This challenging funding environment is the product of multiple factors, including the region’s lack of major foundations and its low level of government funding. Another equally important factor was the rapid growth in the number of arts organizations in this segment of the market, which would strain even more robust support systems. These factors work against the major positive trend of substantially increased per capita giving to groups in every budget segment.

All segments of metro Boston’s large and growing arts community lack the depth and breadth of funding mechanisms available in other regions. Other metro areas in the survey group outranked Boston on this dimension, largely because of one common factor working in their favor: they have core groups of leading organizations that are able to provide major financial support and strategic leadership for the arts. San Francisco, for example, is home to 20 foundations that make major gifts to the cultural sector; in addition, the city has a local funding tax that provided about

\$35 million annually to arts groups in the 1990s. In contrast, Boston, with a similar population and a larger arts sector, is home to only eight foundations of a similar caliber, and its city-funding was less than \$1 million in 1999. Even when adjusted to a per organization level, these differences persist.

Cities that have a wealth of foundations, government agencies, and active corporate supporters are better positioned to establish a common vision for their arts and cultural sector. While vision alone is not a panacea, it does help to build consensus around joint strategies that target funding in ways that will enrich the cultural life of the city and a region as a whole.

Indeed, targeting appears to be essential to a good arts strategy, regardless of how many funding mechanisms are available. Targeting happens on many levels: some cities focus on key cultural institutions or certain artistic disciplines while others target a set of smaller, cutting-edge or community-based organizations. Some of the cities in the sample recognize that giving to all arts organizations equally, regardless of budget size, means giving up the opportunity to achieve real impact in key parts of the market. Boston’s lack of a critical mass of funders with an interest in the arts, combined with its lack of a dedicated local revenue source, has meant that it has not developed a targeted strategy that can support its growing arts community.

Strengthening metro Boston’s arts market will require a complex solution based in a clearly articulated vision of a vibrant cultural community supported by broadly representative leadership. Many strategies could be employed to address the weaknesses in the Boston cultural market. These include advocating that the state grant Boston the flexibility to create a dedicated revenue source or tax, encouraging newly formed foundations to support the cultural sector, promoting greater corporate philanthropy, developing additional mechanisms to build and renovate cultural facilities, finding ways to help smaller organizations access individual giving, and helping all agencies optimize their earned income potential. However, other cities show that these strategies do not arise in the absence of coordinated leadership.

Real leadership tends to arise when people believe passionately in a clearly articulated, ambitious and hopeful vision that places the arts squarely in the

intellectual, emotional, and economic center of the community. A vision that draws the energy and financial commitment of a new generation of leaders will likely be one that targets quality organizations across a variety of disciplines, rather than simply advocating financial health for all cultural organizations. While this study did not address the question of quality and diversity, any future strategy will need to probe this issue in great depth to create a compelling vision of a truly vibrant arts community.

At many points during the course of this study, the authors were reminded of the creativity of Boston's cultural organizations and the dedication of their supporters. City leaders, foundation executives, and cultural leaders hold strong and compelling individual visions of the role of arts and culture in their community's life. The Boston Foundation, for one, is clear in its vision that a healthy community is built on a cultural sector that is healthy throughout, from its major, world-class institutions to its smallest, community-based agencies. These visions are played out in the Boston Lyric Opera's fully staged presentation of "Carmen" on the Boston Common

to an audience of over 140,000 people and in the development of two new theaters on city-owned property at the Boston Center for the Arts. Building projects led by institutions as diverse as the Museum of Fine Arts, the Institute of Contemporary Art, and the Fort Point Cultural Coalition speak to strong institutional visions and new chapters in long histories. New, innovative organizations such as the Boston Modern Orchestra Project, Commonwealth Shakespeare Company, and Boston Cyberarts prove that this market attracts some of the most dynamic arts leaders in the world.

Metro Boston's cultural community, ranging from the New England Aquarium and the Boston Symphony Orchestra to the Cantata Singers and First Night, exhibits much strength. But at the same time, this wonderful asset—one that provides not only great art and cultural opportunities for all residents, but also makes significant economic contributions to the city as a whole—is very fragile. This cultural community deserves a leadership strategy that can support Boston's current and future strengths.

PHOTOGRAPH: DON WEST COURTESY OF THE BOSTON CENTER FOR THE ARTS



Ground was broken for two new theaters at the Boston Center for the Arts (BCA) in the South End on July 2, 2002. This cultural facility project is a collaboration between the BCA, the Huntington Theatre Company, Druker Development, and the Boston Redevelopment Authority (BRA). Here, left to right, are Susan Hartnett, BRA Director of Economic Development, Nicholas Martin, Artistic Director of the Huntington, Mark Maloney, BRA Director, developer Ronald Druker, Mayor Thomas Menino, and Libbie Shufro, BCA President, at the groundbreaking ceremony. Martin plans to program the 350-seat proscenium theater with new works while the 200-seat black box theater will be available to smaller companies. As the first new theaters to be built in Boston in decades, these stages will significantly expand audiences' theatrical options.