Helicon

THE ECONOMIC RECESSION'S IMPACT ON CULTURAL ORGANIZATIONS IN THE PUGET SOUND

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INTRODUCTION

The economic downturn in the United States has intensified every month since September 2008, and it is having significant impacts on cultural organizations as well as other nonprofit organizations. It is now clear that this financial crisis is more severe than anything we have experienced in 50 years, it is affecting every sector of the economy, and it is likely to be protracted. This situation is spurring cultural groups, funders, technical assistance providers, public policy leaders and others to take unprecedented steps to protect and sustain core components of the cultural community.

In December 2008, four Pacific Northwest funders commissioned Helicon Collaborative to interview leaders of diverse cultural organizations in the Northwest to determine the impacts the economy is having on their institutions. The project also involved identifying previous examples of collaborative funder responses to local emergencies. The Paul G. Allen Family Foundation, 4Culture, the Seattle Foundation and the Seattle Mayor's Office of Arts and Cultural Affairs provided funding to support this project. In a parallel effort, ArtsFund conducted an online survey of 81 arts groups in December 2008 to measure financial impacts at that point in time (*State of the Arts: Impacts of Current Economic Conditions on Puget Sound Region Arts Organizations, January 2009*, ArtsFund).

Helicon conducted interviews with representatives of 28 cultural organizations in January 2009. A list of the people interviewed and the interview protocol are attached as an appendix. This report reviews the findings of Helicon's research. Information from the ArtsFund survey has been incorporated where applicable.

HIGHLIGHTS

The primary findings of Helicon's research are summarized as follows:

- **Responses are not uniform.** Cultural organizations interviewed appear to fall into three general categories – those who are proactively addressing the situation and are actually energized by the challenge; those who are informed but more cautious in their responses; and those who seem to be in denial, reluctant to make any changes without further confirmation of the need to do so.

- **A good offense is the best defense.** Foresight is powerful. Those organizations that actively confronted the major shifts in their environment (changes in demographics, technology and audience behavior, and the limits of the nonprofit arts business model) *before the recession* appear to be handling the current challenge with the greatest skill.

- **Focus and nimbleness are more important than size or artistic discipline.** Organizations of different budget sizes and different artistic disciplines are experiencing the downturn somewhat differently, but organizational clarity and agility are what distinguish those who appear to be managing the situation best.

- **Missions are not being re-considered,** although many groups are consolidating programs and operations around their "core" components and eliminating extraneous activity.

- **Impacts on endowments and contributions are clear – declines range from 10% to 50%.** Endowment values have dropped in line with the stock market (roughly 20%-35%). Contributions and sponsorships from corporations have fallen even more precipitously (overall 20%-50%, and in several cases, a complete drop off); contributions from foundations and individuals are also down but less severely (roughly 10%-25%).

- **Impacts on audience behavior and admissions are less clear.** For most, audiences have declined at least 5%-10%, and for some as much as 30%. But for a few groups, audiences have risen slightly. Several organizations suggested that the severe snowstorms that hit Seattle in December may have had a greater impact on audiences than the recession.

- **Technology investments are rising.** While cutting programs and staff in some areas, many organizations are actually increasing their investments in technology – moving print publications online, boosting social networking and online marketing, building bigger electronic mailing lists, enhancing data mining efforts, etc.

- **Boards are stepping up.** All those interviewed complimented their board members, noting that their commitments of time have increased even if their financial contributions have not.

- **Program and resource collaborations are sporadic.** Those groups that were involved in collaborations prior to the downturn are sustaining or expanding them; but there does not appear to be a broad-based turn to resource-sharing or joint program ventures.

- **Communications within the sector are episodic and not strategic.** Those interviewed reported that no organized response is taking place within the arts sector, and communications across institutions are largely informal, occasional, and not very candid.

- **Funders can do more.** None of those interviewed expect increased funding from foundations and public agencies, at least in the short-term. But all suggested that funders of various kinds could help in other ways: by reducing application paperwork or extending current grants an additional year; encouraging program collaborations, joint marketing and resource-sharing; offering loan guarantees or lines of credit; hosting workshops on effective ways to manage the recession; and encouraging arts groups to find solutions in concert with nonprofits outside the arts. **Perhaps most important, organizations want to be informed about funders' and public agencies' policy**

and program decisions as early as possible so the organizations can plan accordingly.

THREE KINDS OF RESPONSE

Based on the interviews, Helicon observes organizations falling into three rough categories:

- Proactive (about 25% of interview sample): These organizations are aggressive in dealing with the recession, both short and long term. They have projected budget and program scenarios across multiple years; they have examined every budget line item and made surgical and strategic cuts; they are keeping their boards, staff and key stakeholders well informed about the challenges and the choices they are making. The leaders of these groups are creative, energetic, and nimble. Some report actually being energized by the current situation, stimulated by the pressure to think in new ways.

- Informed (roughly 60% of interview sample): These organizations are actively addressing near-term challenges. They have reviewed and adjusted current year budgets. They are tracking expenses and income more closely than in previous years. They are not yet thinking about long-term impacts, waiting until Spring to see what happens to ticket sales, contributions, touring engagements, and other revenue. These groups appear to have less experience with scenario planning than the first group, and less data on which to build those scenarios.

- In denial (roughly 15% of interview sample): These organizations are living in the present and operating "business as usual." Some reported that they have not felt the economic downturn yet and expect this year's budget to resemble last year's. Some appear so distracted by day-to-day pressures that they have not considered the larger environment and longer-term view.

It is worth noting that many we interviewed think this current economic situation is only exacerbating issues which have been developing in the sector for years. Shifting patterns of public and private funding; the elimination of arts education in the public schools; changing demographics, technologies and patterns of leisure time behavior – all these factors have been challenging nonprofit arts groups to re-think their operations and adapt. The groups that seem to be grappling with the recession most capably are those that were affirmatively addressing these larger trends prior to the downturn. As a result, most of these groups have strong benchmarks and data-collecting mechanisms already in place to help them make informed and strategic choices now.

INTERVIEW SUMMARY

The findings from Helicon's findings interviews are divided into three sections: Current Impacts; Anticipated Impacts: 2009-2011; and Recommendations for Funders.

> *"Historical data do not mean anything in this situation. There is no blueprint and there is no network. We are doing the best we can with a combination of hard facts and intuition. Every line item is up for grabs; every $1,000 is material. How we feel about it all depends on which newspaper we read that morning."* -- Managing Director, large performing arts group

Current Impacts

Effects on Revenue

All but a few of interviewed organizations are experiencing a downturn in earned income. Declines in ticket sales and admissions ranged from 5% to 30%. A couple of organizations saw increases in ticket sales in 2008, but these occurred primarily in the early part of the year. Other earned income, such as rental income and shop sales, is also down by 10%-20%. Many organizations have had corporations cancel signed contracts for space rentals; others are seeing a fall-off in rental bookings.

Contributed income declines ranged from 7% to 20%.[1] Corporate donations and sponsorships have declined most precipitously (20%-50%). In one case, the group's title corporate sponsor – a long-time supporter – terminated its $500,000 commitment on very short notice, sending the organization scrambling to find alternative backing. Funding from foundations has also declined, but less severely (10%-25%).

While no groups reported defaults on pledges by individuals, many noted receipts from major fundraising galas are down by 10%-20% and giving by individuals has declined by as much as 20%. In several cases, organizations have seen a decline in the amount of individual donations but an increase in the number of donors, which they view as an expanded base on which to build in the future, even if their aggregate in individual donations is down or flat this year. Funding from public sources seems to be steady at present, although most organizations anticipate severe cuts in funding from state and local sources next year (10% and more).

Those interviewed reported drops in the value of their endowment portfolios of 20% to 32%, in keeping with declines in the stock market overall. In some cases, this means as much as $1 million in reductions to annual revenue, which is having significant impact on the organization's annual budget. Losses in endowment funds is even more alarming to most than cuts in earned income and contributions because rebuilding these portfolios is likely to take 5-10 years.

Of the handful or organizations currently conducting capital or endowment campaigns, most suggested they plan to continue, although they may stretch their timeline. One organization has suspended its endowment campaign in favor of raising a special fund that can be spent down in the near term.

Overall, most organizations can see their way through 2009 but are deeply concerned about income prospects for 2010 and beyond.

Effects on Programming

Many organizations are locked into current programs by contract or funding agreements, which make quick shifts difficult.[2] However, most organizations are planning to reduce their programming schedules over the next 12-18 months. In one case, an organization has cut 30% of its programming budget already; others are cancelling or curtailing summer programming;

[1] ArtsFund's *Economic Conditions Impact Report* (January 2009), reports "Almost a third of [groups surveyed] … see 10 percent-plus drops [in annual fund gifts].

[2] ArtsFund's *Report* found that 42.6% of cultural organizations did not plan to alter their expenditures on artistic programs.

others are extending the runs of current exhibitions or shows; some are delaying openings of new installations or concert series.

Not only the number and length of programs are being affected. The kinds of artistic programs are also being adjusted. Most of the organizations interviewed expect to make some changes in the kinds of work they present next year – shifting toward more "popular," less experimental material in at least some of their programs. In addition, several companies are slowing down on new work development, and intend to re-mount works in the repertory rather than stage new pieces that are more costly to present.

Most groups that had pre-existing program partnerships are sustaining those activities and in some cases expanding them. Because developing effective partnerships is time-consuming, however, there is little evidence of organizations starting new projects with unfamiliar partners. In a few instances, arts groups are beginning to think that partnerships with social service and community service organizations (sharing space, or combining back office functions) may be more relevant and useful than partnerships with arts groups.

Effects on Personnel

The majority of organizations have instituted hiring freezes. About half have actually cut positions (ranging from 5% to 30% reductions in force), and re-organized or consolidated responsibilities in new job configurations. Several organizations are considering merging functional areas, such as combining marketing and development.[3] Some who were on the verge of staffing up in new areas are postponing such initiatives or distributing those responsibilities among existing staff. Visual arts institutions appear to be increasing their dependence on part-time workers; performing arts groups decreasing their use of contractors or part-time staff.[4]

Several organizations have asked senior staff to take pay cuts (ranging from 5% to 15%), and several have curtailed benefits such as transit reimbursement and contributions to 403b accounts. One organization has instituted a "vacation initiative," requiring staff to take accrued vacation or lose it permanently. A number of organizations are considering furloughs. Many noted that their current staff is already lean, which leaves little room for personnel adjustments without sacrificing delivery on their mission. One organization noted that the economic downturn has allowed them to "upgrade" their staff with highly qualified individuals who otherwise might not have been looking for a job.

Effects on Venues

The majority of organizations that own venues are working to reduce expenses associated with their buildings. Those that can are postponing renovations and maintenance. None suggested that they are exploring sub-leasing space to other groups, although several theaters mentioned that they are considering consolidating prop and costume shops. Several organizations that rent

[3] ArtsFund's *Report* found that 32.3% of organizations surveyed did not expect to change expenditures on personnel for the current fiscal year, 29% expected to change personnel expenses by less than 4.9%.

[4] When surveyed by ArtsFund, 83% of organizations reported that they would make no change to artistic personnel in the current fiscal year; 79% reported they would not change marketing or development staffing in the current fiscal year; 24.2% of respondents said they may reduce administrative staffing in the current fiscal year.

offices or performance space plan to explore cheaper alternatives in the coming year and are open to sharing space with other organizations.[5]

Many people interviewed suggested that organizations without venues are in a better position to weather the recession. Their fixed cost to variable cost ratio is lower, and they have greater flexibility to change directions if expected funds do not materialize. This perception was offset somewhat by the idea that organizations with venues – for the most part, older and larger institutions – have relationships of long standing with funders and may fare better with these sources than groups that do not own their spaces.

Effects on Audiences

The majority of organizations knew very little about the effect of the economy on their audiences. Most are tracking ticket revenue and admissions data, some on a weekly basis, and the majority saw drops in their admissions during late 2008, relative to the previous year.. One organization went from a substantial increase in audiences in the first quarter of 2008 to a decline of 27% over the previous year's ticket sales in December 2008.[6] No one mentioned an effort to canvass their audiences in the wake of the downturn, or do fresh market research on evolving audience preferences.

Groups expect declines in subscriptions and group sales, and increases in "day-of" buying practices. These trends will have an effect on budgets overall, but are already creating serious cash flow problems for some groups. Those groups that count on advance ticket sales to cover pre-show expenses are at high risk, and the credit crunch in the banking industry intensifies the problem. Those groups that do not have lines of credit are having difficulty securing them; others worry that their lines of credit may be terminated; still others know that their line of credit will not be adequate to cover their cash flow needs and fear they may not be able to re-negotiate terms with their banks.

Organizations with high ticket prices appear to be suffering from greater declines in audience than those with more modest prices. Ticket prices above $60-$75 now appear to be viewed as luxury expenditures, and some organizations are reconsidering pricing as a result.

Many organizations suggested that in response to the economy, they are focusing primarily on their "tried and true" audiences, subscribers and donors, and postponing or cutting back on any plans for cultivating new audiences.[7] Several suggested they may change their hours to make themselves more accessible. For museums this means opening in the evening; for performing arts groups this means doing more matinees. As one person noted, "The old adage, 'the customer is always right' is not an abstraction for us anymore."

Effects on Board and Staff

The boards of the organizations interviewed received high praise for the way in which they have stepped up to the challenges created by the recession. In a few cases, board members have significantly increased their donations (one person increased his annual gift from $5,000 to

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[5] In the ArtsFund survey, "putting expansion plans on hold" was the reply given by most organizational leaders (55.1%) in response to the question about what single action they were most likely to take to reduce expenses.

[6] 33.3% of respondents in the ArtsFund survey reported that they were making no revisions in expectations for subscriptions/memberships in the current fiscal year, and 31.1% were making no changes to their expectations of single ticket sales/admissions.

$25,000). In other cases, board contributions are flat or down. But in every case, board members have increased their commitment of time, energy and expertise. This includes increased time on board committees, stepped up fundraising calls, and generally being more available to the staff. In one case, a new board committee, the Economy Task Force, is monitoring economic forecasts closely and helping the institution anticipate the future. In most cases, the executive director is pro-actively providing more detailed financial information to the board, or the board is calling for such reports. Most are reviewing revenue and expenses on a monthly basis; some on a weekly schedule.

Staff members of the organizations also were lauded for maintaining their spirit and dedication in a time of tremendous anxiety, in almost all cases working longer and harder for the same or less money. Staff is actively involved in the budget and scenario planning process in most organizations. Institution leaders are holding regular information-sharing sessions with staff to discuss changing conditions and decisions that have been made. Many organizations, especially larger ones, have empowered department-level staff to make recommendations about specific cuts.

<u>Effects on Sector Communication</u>
The leaders in the cultural organizations interviewed for this project have not organized themselves in response to the recession. While there have been some meetings in which arts groups have come together to discuss current conditions, many leaders we interviewed said they talk to their peers across the country more often than they talk with other cultural leaders in Seattle. Several have a strong aversion to meetings of cultural groups that they perceive as always focused on negatives and “whine-y.” A number of people noted with gratitude the meetings that the Allen Foundation and Washington State Arts Commission have hosted recently; and one person mentioned that a late 2008 meeting of Human Resources professionals was enormously helpful in suggesting many practical ways to handle personnel challenges and needed policy changes.

A majority of groups suggested that there are many opportunities for cultural groups to collaborate and economize during this period. Specific ideas included: joint marketing and cross-promoting; sharing venues; coordinated programming (piggybacking on artists or exhibits brought to the region by other organizations); sharing the cost of back-of-house functions; sharing membership lists; and a Citywide arts pass.

Anticipated Impacts, 2009-2011

<u>Effects on Revenue</u>
While short-term revenue is a concern, there is foreboding about longer-term prospects for income. Most groups can see a way through 2009, but they are gravely worried about generating revenue in 2010 and 2011. Corporate support is expected to continue to decline, as is foundation giving. Everyone is certain that government support will contract. Arts leaders also fear that both foundation and government support will shift to other areas of need – social and community services – and that this shift away from the arts may outlast the recession.

Those organizations with endowments do not anticipate a rebound in revenue from these investments for at least 3-5 years, and none are anticipating big bounces in their contributions from individuals.

Most organizations that have forecasts are budgeting for at least 7% reduction in ticket income next year and subsequent years.

Those who are thinking about the future are concentrating on ways to boost individual contributions and establish new, profitable lines of business.

Effects on Expenses

All the organizations we interviewed anticipate having to make further budget reductions in years ahead. About half the groups are doing some kind of scenario planning, projecting budget cuts of 10% to 50% in 2010. None are doing detailed forecasts into 2011.

Some groups are seeking to refinance their debt, others to create a cash reserve to help with cash flow problems and avoid difficulties with borrowing money. A number of groups are eliminating revenue-generating activity that absorbs cash upfront, such as operating concessions and ATM machines at their venues.

Almost all the groups plan to increase online marketing and advertising, grow email lists and implement other electronic approaches to attracting and connecting with audiences, while cutting back on traditional advertising and marketing expenses. Many indicated they will transfer their season brochures online and eliminate as many print publications as possible.

Effects on Mission

None of the organizations suggested that they needed to change their mission in light of current economic realities, but most noted that the downturn is making them refocus on their core programming and services. Several suggested that they plan to start strategic planning in the coming year, which might affect long-term purpose and goals. None of the groups interviewed spoke about going out of business, merging with another institution, or significantly intensifying their approach to partnerships.

Key Indicators

Not surprisingly, the key indicators that all cultural institutions are tracking are ticket sales/admissions and contributed income. This includes monitoring the aggregate receipts as well as ratios and patterns -- ticket revenue in relation to specific program's expense, intervals between date of ticket purchase and day of performance, number and rates of giving at different levels, the ratio between earned and contributed revenue, the stock market, and other financial markers.

One organization noted that they are tracking "curatorial drivers" and "sustainability drivers" and considering these issues in all dimensions of budget planning and adjustment, something they have never done before. Several organizations noted that they are monitoring what and how commercial establishments are doing – restaurants and movies, especially – to track the public mood. After noting the great success a local restaurant is having with a new brunch offering, one theater group decided to increase its matinees.

Besides Money, What Will Help?

Transparency:
Most organizations noted the need for open discussion in the cultural community about short- and long-term impacts of the recession. As one person noted, "The stories I've read in the media are rosier than our day-to-day experience. People are not being candid."

Information about Best Practices:
Are there best practices in situations such as these? Everyone wants to know. But even if the rulebooks don't apply precisely to the current conditions, organizations would like the opportunity to learn practical lessons from others who are managing the downturn as successfully as possible – both in the Puget Sound region and in other parts of the country. Workshops, seminars, online or live consultancies and other offerings would be welcome.

Cross-sector Collaborations:
A few people noted that the arts represent just one part of the larger nonprofit sector, and nonprofits in some other sectors are facing even greater challenges than arts groups. Two museums in different communities are beginning to think about their museums as a "community living room," and are considering inviting afterschool programs, community clubs, and other groups to use their facilities. One leaders suggested that if arts groups reached out to collaborate with other nonprofits now, those groups might return the favor later. As this person put it, "When we get out of the recession, and people look back, how do we want arts groups to be remembered? As institutions that only looked out for our own welfare? Or as neighbors and friends, organizations that genuinely helped the community deal with and overcome its troubles?"

Suggestions for Funders
Responses from the interviews fell into four main areas: flexibility, candor, advocacy and leadership.

Flexibility:
All those interviewed urged both public and private sector funders to be more flexible in recognition of the special economic circumstances. Specific recommendations included:

- Allowing groups to renegotiate or re-purpose their grants, if necessary, to address unanticipated circumstances.
- Extending existing grants (ie, adding a year of additional funding with a minimum of additional paperwork).
- Simplifying grant application procedures to reduce the time groups spend in the "fundraising dance."
- Funding collaborative projects such as joint marketing, centralized ticket functions, or consolidating back-offices of several organizations.

Candor:
Organizations realize that most funders are being buffeted by the economy, and many cannot forecast the resources they will have available for grants. Even so, organizations hope that funders will be as open with them as the organizations have been with the funders. Specific recommendations included:

- Keeping current grantees up to date on the options funders are considering and the allocation decisions they are making.

- Letting organizations know as early as possible about whether they will not receive support. Bad news is hard to take, but it's easier to recover if the news comes early in the organization's planning cycle.

Advocacy:
Multiple organizations mentioned the need for funders to individually and collectively advocate for the area's arts and cultural sector, internally within their foundations and public agencies, and externally with elected officials and other community leaders. This would ensure that

- The arts are part of the larger conversation about the recovery of the region's nonprofit sector – linking the arts to education, social services, economic development, and environmental issues.
- Artists and cultural organizations have a role in the local administration of funds from the federal Recovery and Reinvestment Act.

Leadership:
Cultural groups look to the Northwest Area public and private sector funders for both strategic leadership and a long-term perspective. Specific ideas for leadership initiatives included:

- A systematic effort to broker partnerships on space, programs, fundraising, administrative services, and audience engagement – within the cultural community and between the arts and other sectors.
- A collaborative marketing or advertising campaign.
- Reviving the National Arts Stabilization Program in Seattle, or adapting other programs that have been successful in re-capitalizing arts groups (such as the Van Dusen Program at the Southeastern Michigan Community Foundation, which stimulated increases in the endowments of nonprofits in that region).
- Establishing a "Sunsetting Fund" or other incentives to encourage marginal groups to cease operation.
- Funding "hybrid" organizations that use nonprofit and commercial strategies.
- Planning for a sustainable future for the arts in Seattle and considering a range of radical ideas.
- Putting the foundation's assets to use in ways other than grantmaking: offering to guarantee loans for cultural groups in good standing; providing bridge financing for groups suffering cash flow problems; or extending lines of credit.
- Creating a revolving loan fund, like that in San Francisco, for cultural groups the Northwest Area.

COLLECTIVE RESPONSES

After reviewing a preliminary version of this report, the foundations and public agencies that commissioned the research discussed its findings, and agreed there are many suggestions that each funder can use (and some already have). But they also agreed there were things that none would be able to do on its own, and require collective responses. Four concepts emerged as priorities for further exploration:

1. Revolving Loan Fund

Arts organizations of all kinds are experiencing unanticipated difficulties with cash flow and short-term financing as a result of the recession. There are many legitimate causes for this, including delays in payments on public contracts or philanthropic pledges, drops in subscription income (likely to be recouped with subsequent ticket sales), necessary investments in technology that will generate revenue long-term, and other factors.

Establishing a Revolving Loan Fund could address this issue and provide relief to a range of qualified organizations. The Northern California Grantmakers' Arts Loan Fund is an excellent model. Created in 1981 in response to demonstrated cash flow needs, especially among mid-sized and smaller arts organizations, the Arts Loan Fund (ALF) provides quick-turn around, low-cost financial assistance to arts groups and individual artists in the Bay Area. www.ncg.org/services_alf

ALF considers loan applications on a monthly basis, and makes about 20-30 loans each year, totaling approximately $600,000 in 2007. The program provides five types of loans. None of the loans exceeds $50,000, and most must be repaid within 12 months. In recognition of the strain that the timing of reimbursements from public sources can put on organizations, the ALF has a relationship with San Francisco Grants for the Arts and Oakland Cultural Arts Program whereby ALF advances monies to arts groups receiving grants from these funders, and the funders repay ALF upon receipt of invoices and receipts from the arts groups.

ALF is funded by its members, which include foundations, corporations and government agencies. A Steering Committee sets policy, develops programs and makes decisions on loan applications.

In the Puget Sound region, funders could collaborate to create such a program, modeled on the San Francisco example. Multiple funders could pool resources to establish an initial capitalization of $750,000-$1 million, providing an important service that would address a clear need.

2. Fund for Dynamic Adaptation

Many arts organizations realize that the recession presents an opportunity to re-consider basic assumptions and plan for a different future. In some cases, this may mean "right-sizing" the organization to a place where its revenue and expenditures are in genuine balance, or re-conceiving the fundamental business model of the enterprise. In other cases, it may mean joining forces with other organizations (including non-arts organizations) to share space, costs, programming or personnel. And for some, it might mean suspending operations for a period of time, a merger between groups, or complete closure – including the thoughtful disposition of assets and archives, and transitioning of staff.

Even those groups motivated by current circumstances to think unconventionally have few resources to do so. Funders in the Northwest could pool resources to create a fund to encourage dynamic adaptation. This could be dispersed in grants to organizations (or consortia) to plan and/or implement change strategies. A pool of $1 million, distributed in substantial grants ($75,000-$100,000), could propel meaningful change in 10-15 organizations.

The grants could be coupled with technical assistance and consulting services. One relevant model is the Kellogg Action Lab, a partnership between the Fieldstone Alliance and Nonprofit Finance Fund (NFF), funded by the W. K. Kellogg Foundation. Kellogg identifies grantees that it believes would benefit from comprehensive organizational assessment and pays for the services of Fieldstone (organizational analysis) and NFF (finance capitalization analysis). www.kelloggactionlab.net

Another model is the Philadelphia Cultural Management Initiative (PCMI). PCMI, funded by Pew Charitable Trusts, provides grants for strategic planning, consulting services, and other activities that boost the capacity of organizations to adapt to their changing environments. www.pewtrusts.org/our_work_detail.aspx?id=34

Both the Kellogg Action Lab and PCMI are multi-million dollar, multi-year, multi-faceted programs,; full replication in the Puget Sound area would be daunting at this time. But it is possible that some of their fundamental concepts could be adapted to the Northwest area at much lower cost, and relatively fast.

3. Technology Initiative

Many of the groups interviewed for this project noted their acute need to invest more extensively and strategically in technology to make internal operations more efficient and communication with external constituents more dynamic and robust. Some organizations are putting more resources into technology, even as they reduce staff and other costs. Given the region's leadership in technological innovation, a collective investment in upgrading arts groups' infrastructure may have particular appeal and merit in the Puget Sound area.

Such an initiative might focus on grants to individual organizations for planning, equipment purchase, staff training or related expenses. Alternatively, it could finance the development and implementation of collaborative endeavors among diverse arts groups – such as a unified ticketing system, a data cooperative, comprehensive implementation of the Cultural Data Project, or development of a city-wide mailing list (similar to ones in Philadelphia and San Francisco). Another component might focus on ways to expand cultural groups' understanding and application of social networking technology and related innovations, through training programs, mentoring opportunities or "apprenticeships" for arts managers at companies that are designing the next generation of applications.

Here, too, funders could pool resources – first, to support additional research and planning to shape the best strategy (through conversations with leaders in the arts sector, technology innovators and pioneers in the use of technology in other sectors), and then to implement a unified plan.

4. Building the Knowledge Network

The need for good communications and regular exchange of information only increases in a crisis. Convening members of the cultural sector is important; ensuring that these sessions provide valuable content and help propel the community forward is essential. Funders could pool resources to offset the costs of organizing and facilitating such gatherings. A number of themes might be pursued, including but not limited to:

- Highlighting local examples of effective response;
- Sharing the results of relevant research in the Northwest and other regions of the country;
- Inviting speakers with a national view and/or expertise in managing nonprofits in economic downturns;
- Organizing workshops on specific topics such as scenario planning, cost-sharing, collaborative marketing, filing for bankruptcy or closing, etc.

These four strategies would address pressing needs in the arts sector and, if implemented, would relieve some important distress in the system. But what if the system itself is a major part of the problem? Whether one thinks that the arts sector is overbuilt or under-resourced (or both), the cultural community as a whole was troubled before the recession started. Growing deficits, flat or declining audiences, diminished public funding, increasing competition for finite foundation dollars, dwindling coverage of the arts in the print media, an exploding variety of technology-based entertainment options – these and other trends have been building for some time. What we may need is a wholesale reconsideration and transformation of the cultural ecosystem, a re-imagining of the function of arts and culture in 21st century communities. So there is at least one other possible collective strategy to consider:

Exploring Transformation
In a recent article in *The Nonprofit Quarterly*, Paul Light, Professor of Public Service at New York University and an expert on nonprofit management, outlines four potential futures for the nonprofit sector in the wake of the recession: 1) "a rescue fantasy" (nonprofits are saved by a massive, unprecedented increase in charitable giving); 2) "a withering winterland" (all nonprofits suffer and most starve themselves beyond the point of effectiveness); 3) "an arbitrary winnowing" (the survival of the fittest – likely the largest, oldest and most well-connected); and 4) "transformation" (a broad and strategic re-design of the sector that leaves it stronger, more vibrant, more sustainable and more impactful long-term). "The nonprofit sector can always let the future take its course … but in doing so, it would almost surely experience either the withering of organizations that comes from inaction or a random winnowing based on influence and ready cash, not performance. It can reap the benefits of transformation only by deliberate choice."[8]

Transformation is the most appealing of Light's scenarios, and probably the most difficult to achieve. But arts funders, working collaboratively, could stimulate and finance a community-wide conversation about the possibility of transformation. This would involve engaging a broad cross-section of people – cultural leaders, philanthropists, policy makers, artists, elected officials and thought leaders from other nonprofit sectors and commercial enterprises – in dynamic and creative brainstorming about the future of the arts in the region. The goal would be to generate an array of "thought blueprints" – alternative ideas and options – that could be shared with the wider community and lead to progressive change. But even if none of the ideas spawned by this process were implemented, the exercise itself would enlarge the community's options, connect people to new partners and possibilities, and demonstrate an active rather than passive stance in the face of this unprecedented situation.

CONCLUSION

> *"The severity of this crisis offers us a rare opportunity to do the hard thinking that we have been avoiding: What kind of cultural community do we want? More important, what kind of cultural community can we truly afford? Should everything survive just because it has been here for a while? How are artists and arts groups really contributing to the lives of our residents? Are we relevant? Let's not waste this chance to ask ourselves the scary questions. That way, we may be able to choose our future, rather than having a Darwinian outcome thrust upon us."*
> – Executive Director, multi-disciplinary arts center

[8] Light, Paul. "Four Futures," *The Nonprofit Quarterly*, January, 2009. www.nonprofitquarterly.org/content/view/806/1/

The cultural sector in the Northwest is struggling, and many institutions are struck by the swiftness with which the recession has challenged some of their basic operating assumptions. Individual cultural organizations are coping as well as they can. Most are too busy managing their own institutions to think about how they might work with others to formulate strategic, community-wide responses. They appreciate the concern that public and private funders have demonstrated to date, but hope for even greater leadership from the foundation community and the public sector going forward. As evidenced by the consortium that commissioned this research, the ArtsFund *Report*, and other efforts, private and public funders want to be as helpful as their constrained resources will permit, and are looking at ways they can act both individually and collectively. The faltering economy offers both cultural groups and funders an opportunity to reconfigure themselves for greater synergy and impact – and not just survive the recession, but emerge as stronger, more vital and more relevant community resources when the economy rebounds.

PRECEDENTS IN COLLABORATION

Helicon identified a range of examples in which funders worked collaboratively to assist arts and cultural organizations in a time of emergency. This included responses in previous recessions, and at times of natural disaster such as earthquakes. The following material summarizes the features of the most relevant precedents.

Northern California Grantmakers Arts Recovery Fund

When: 1990

Why: To provide emergency assistance to artists and arts organizations after the Loma Prieta earthquake.

Where: Northern California

What: The Arts Recovery Fund was established by the Arts Loan Fund to assist arts organizations and artists who had suffered damages by the quake. The Fund was supported by local grantmakers and a $555,000 Challenge Grant from the National Endowment for the Arts. Most grant requests were to compensate for income losses due to canceled or changed events or facility closures. Assistance requests also included building repair, replacing equipment, and relocation costs. There were longer-term effects of the quake on audiences and fundraising that the fund did not address.

The fund provided a total of $1,133,951 to help cover damage to artwork, equipment, and supplies; repair and relocation of workspace; and revenue losses. An additional $165,000 for the arts was provided by other recovery related sources. Overall 102 arts nonprofits were awarded grants, 46 of which were in San Francisco.

In total grantmakers provided $43,966,792 in disaster-related grants during the six months following the earthquake, including $24,850,310 from the Northern California Red Cross Earthquake Relief Fund. 907 grants were awarded to nonprofit agencies and to the programs and funds established to provide direct relief. Excluding the Red Cross, the grantmaking community made 869 grants for a total of $19,116,452. Arts grantmaking was 4% of overall grantmaking in response to the disaster and 11% of grantmaking if the Red Cross is excluded. The arts did not fall smoothly into federal definitions for disaster assistance. Loss of contributed and earned income is not covered by FEMA. Few artists had the documentation to prove their eligibility for Small Business Administration loans. Many arts organizations and artists joined in general relief effort with fundraisers, however the NCG's Arts Recovery Fund was the only organized relief effort specifically available for the arts. Losses by artists and arts organizations were estimated by the California Arts Council to be $40 million for San Francisco, $1.2 million in Santa Cruz and over $1 million in Alameda County.
http://www.ncg.org/assets/EarthquakeBulletinFinal.pdf

New York Arts Recovery Fund

When: 2001

Why: To provide emergency assistance to artists and arts organizations after 9/11

Where: New York City

What: The New York Foundation for the Arts led an effort to raise $4.6 million dollars for artists and arts organizations affected by 9/11. The money was awarded to 352 artists and 135 arts groups based on demonstrable financial need, including physical damage to property or health, relocation costs or other economic harm. Artists who lived or worked in Lower Manhattan were given special consideration. The fund received 590 applications from individuals and 191 from organizations. The grants were capped at $10,000 for artists and small businesses and at $50,000 for nonprofit arts organizations. The average grant for individuals was $5,500; for organizations $20,000.

The recovery fund was started with gifts from the Rockefeller Foundation, the Robert Sterling Clark Foundation, and the Andrew W. Mellon Foundation. The pool of money also included some of the $1 million in an emergency city grant that the Broadway theaters returned to the city after many shows recovered their audiences more quickly than anticipated.

While the Alliance of Resident Theaters distributed aid to theaters and the American Music Center helped music groups, the Arts Recovery Fund focused on artists and organizations in other disciplines, like dance, visual arts and media.

Arts Forward Fund

When: 1991-1993

Why: To respond to the economic downturn and corresponding decline in funding for cultural organizations

Where: New York City

What: The Arts Forward Fund was a consortium of 36 private and corporate donors that came together to help make up for a decline in financial support for many of the city's cultural institutions. The fund encouraged organizations to participate in partnerships, collaborations, resource sharing and other approaches to help achieve financial stability. The belief was that old fundraising and business models were no longer adequate and organizations needed to rethink things in order to thrive. The hope was that the initiative might generate bold, new ideas that would assist the city's arts organizations create new business models that were sustainable over the long term and could be replicated by others. It also sought to create a healthier dialogue between organizations and funders.

Organizations of all sizes in all five boroughs of New York City were encouraged to submit risky proposals, which were judged on creativity over institutional size or capacity. About 340 organizations applied for planning grants and 36 grants, totaling $681,500, were made. Seventeen organizations received another $1,026,425 to implement their plans.

Major corporate and foundation supporters (contributing more than $100,000) included the Philip Morris Companies, the Booth Ferris Foundation, the Fan Fox and Leslie R. Samuels Foundation, the Ford Foundation, the Joyce Mertz-Gilmore Foundation, the Rockefeller Foundation and the Lila Wallace-Reader's Digest Fund. Financial administration of the program was provided through the New York Community Trust

WolfBrown conducted an analysis of the initiative. They determined that the Fund did not have the hoped-for bold, new ideas or models, though it change some and boost morale, particularly in smaller organizations. They found that organizations that were successful had many common characteristics, but that the program should have offered clearer guidelines and criteria for success.

Americans for the Arts' Emergency Relief Fund

When: 2005 (ongoing)

Why: To help service organizations provide relief during disasters

Where: Nationally

What: The Emergency Relief Fund was established to provide timely financial assistance to victims of a major disaster for the purpose of helping them rebuild the arts in their community. Relief funds are distributed directly to local arts agencies or other nonprofit arts organizations that provide community-wide services. The funds may be used to assist with their own recovery as well as to provide needed services and funding to local nonprofit arts organizations and individual artists. Relief funds are provided by Americans for the Arts and donors (foundations, corporations, governmental agencies, nonprofit organizations, and individuals) from across the country. One hundred percent of all funds raised are distributed to local arts service organizations in disaster areas.

Louisiana Cultural Economy Foundation

When: 2005 (ongoing)

Why: To provide critical relief and recovery funds for artists and cultural organizations in the aftermath of Hurricanes Katrina and Rita and, more generally, to support the development and enhancement of the cultural industries in Louisiana

Where: Louisiana

What: The Louisiana Cultural Economy Foundation (LCEF) was launched as a result of Lieutenant Governor Mitchell J. Landrieu's Cultural Economy Initiative.

LCEF was established as a not-for-profit foundation to bring together public and private funds to provide relief and recovery funds for artists and cultural organizations in the aftermath of Hurricanes Katrina and Rita. LCEF has focused on helping and investing in Louisiana's artists, cultural organizations, and cultural businesses get the resources to get back on their feet and doing creative work.

LCEF has raised $1.1 million to date from over 30 funders and distributed almost $650,000 to 300 artists, cultural organizations and businesses. Funding has been raised from national as well as local sources and includes individuals, foundations, corporations and public sources.

The LCEF is planning to move out of a relief focus and to focus more on the economic health and quality of life of the state's entire creative economy workforce. Their goal is to establish an infrastructure that will serve the cultural industry across the state by encouraging and enabling entrepreneurial risks, innovation, and economic growth.

National Arts Stabilization Fund

When: 1983-1995

Why: To provide funding to stabilize arts organizations who are engaged in a disciplined process of achieving financial goals

Where: National

What: The Ford, Mellon and Rockefeller Foundations provided $9 million in seed money for the National Arts Stabilization Fund, which then secured funds from diverse individual, corporate and foundation partners across the country. The national program seeded projects in 5 cities, including Seattle. Pursuing a "balance sheet strategy," the program offered financial incentives and technical advice to boost the capitalization of performing arts and visual arts institutions, leaving them with working cash reserves, enlarged endowments and stronger financial management skills. ArtsFund handled the local administration of NASF in Seattle.

Craft Emergency Relief Fund

When: 1985-present

Why: To provide support to craft artists

Where: National

What: CERF works to help craft artists deal with and prevent emergencies through direct financial and educational assistance including emergency relief assistance, business development support, and resources and referrals on topics such as health, safety, and insurance. CERF also advocates, engages in research, and backs policy that supports craft artists' careers. The organization has helped hundreds of professional craft artists with over $1 million in financial assistance since 1987, along with approximately $250,000 in donated services such as booth fee waivers, equipment, and supplies. Supporters include other craft artists and organizations, galleries and collectors, publications, individuals, and foundations. Support was provided to many craft artists impacted by Hurricane Katrina in New Orleans.

Nisqually Earthquake Relief Fund

When: 2001

Why: To provide relief funds to artists who suffered catastrophic losses during the Nisqually Earthquake.

Where: Western Washington State

What: The Artist Trust administered $40,000 in relief funds to several artists who suffered catastrophic losses as a result of the Nisqually Earthquake. The funds were provided to the Artist Trust by the Washington State Arts Commission (via the National Endowment for the Arts) and the King County Arts Commission. The funds were used to help artists with a variety of earthquake related expenses including relocation costs and the costs of artwork and equipment removal.

Fund for Our Economic Future

When: 2004 (ongoing)

Why: To strengthen the economy of Northeast Ohio through strategic and collaborative grantmaking, research and civic engagement.

Where: Northeast Ohio (16 county region)

What: The Fund brings together foundations, organizations and individuals to improve the region's economic competitiveness in four priority areas:

- Business Growth & Attraction
- Talent Development
- Growth Through Racial & Economic Inclusion
- Government Collaboration & Efficiency

The Fund has brought together more than 100 donors who have contributed more than $60 million to the Fund, almost all of which goes to regional economic development organizations that work to start, accelerate, attract, and grow companies in the region. All members that commit at least $100,000 to the collaboration are eligible to vote on how the Fund allocates its resources.

The Fund is not a legal entity, but collaboration among members to support a select number of initiatives that achieve the objectives of Advance Northeast Ohio, the region's economic development plan. The Fund's advisors and members work with staff to oversee its grantmaking, research and civic engagement activities.

The Fund has sponsored a recent survey that shows growing public satisfaction with the region.

Marin InterAgency Disaster Coalition

When: 1989

Why: To expand and improve the disaster resources of private sector human services organizations.

Where: Marin County, California

What: After the Loma Prieta earthquake on October 17, 1989, the Marin Community Foundation convened a meeting of agencies to discuss countywide planning and organization of disaster related services. An Inter-Agency Disaster Response Plan was created. The group met on an informal basis until 1995 when a major fire (Vision Fire) demonstrated the value of an inter-agency operational plan. As a result, the group became committed to institutionalizing disaster services and strengthening collaborative efforts.

The organization's goals are to:

- Minimize the duplication of disaster services.
- Identify and advocate for the closure of gaps in disaster mitigation, preparedness, response, relief and recovery.
- Recruit other agencies and organizations to make a commitment to collaborate in providing disaster services.
- Assist agencies in orderly emergency preparedness planning.
- Coordinate the flow of information and requests for resources/services between the private sector agencies and the County emergency management operations.
- Participate with public and private agencies in promoting and providing community information and education.

MIDC is organized in functional groups. Each member agency is committed to assuring an effective response in their area using done their own resources as well as coordinating the efforts of other agencies.

Building Resilience Fund

When: 2008-present

Why: To address the urgent needs of individuals and families affected by the economic recession.

Where: Western Washington State

What: The United Way of King County and the Seattle Foundation have joined together to create the Building Resilience Fund, a $8 million collaborative funding response to the recession. The United Way kicked the fund off with $2 million that will begin to be disbursed immediately and the Seattle Foundation plans to raise the rest over the next three years. The effort is seeking donations from individuals, companies and foundations in the community.

The powerful alliance is guided by four key strategies:

- Act fast to address basic, urgent human needs.
- Look ahead to develop long-term strategies to get people back on their feet.
- Give extra in this time of upheaval.
- Give smart by tying giving to real results and common goals.

Other contributors to the fund include The Bill & Melinda Gates Foundation, Microsoft Corporation, The Boeing Company, Medina Foundation, John Stanton and Theresa Gillespie, The Joshua Green Foundation, The City of Seattle, The Raikes Foundation, Puget Sound Energy, Safeco, Starbucks, Key Bank and Washington Federal Savings.

Other Resources:

Many of these resources have ideas for coordinating responses for maximum impact:

Disaster Grantmaking: A Practical Guide for Foundations and Corporations: The Report of a Joint Working Group of the European Foundation Centre and the Council on Foundations. Second Edition April 2007.

Northern California Grantmakers, Resources for Disaster Preparedness and Response http://www.ncg.org/services_preparedness_resources.html

Boris, Elizabeth T. and C. Eugene Steuerle., eds. *After Katrina.* The Urban Institute. May 2006.

The Response of Local Nonprofits to Hurricane Katrina: Research Highlights from the Nonprofit Sector Research Fund. August 2006, No. 42.

The Foundation Center. *9/11 Relief and Regranting Funds: A Summary Report on Funds Raised and Assistance Provided,* 2004.

Council on Foundations. *We Were There: The Role of Philanthropy in National Disasters,* 2006.

INTERVIEWS

Carlo Scandiuzzi, A Contemporary Theatre
Michael Crawford and Renate Raymond, Bellevue Arts Museum
Myra Pratt and Jane Jones, Book-It Repertory Theatre
Thatcher Bailey, Centrum
Stephanie Ellis-Smith, Central District Forum for Arts and Ideas
Josi Callan and Patty Sabee, Experience Music Project
Leonard Garfield, Historical Society of Seattle and King County
Brian Colburn, Intiman Theatre
Dan Mayer, Kirkland Performance Center
Lane Czaplinski and Sarah Wilke, On the Boards
Sheila Hughes, One Reel/Teatro Zinzanni
D. David Brown, Pacific Northwest Ballet Association
Maryann Jordan, Seattle Art Museum
Tim Jennings and Linda Hartzell, Seattle Children's Theatre Association
Andrea Wagner, Seattle International Children's Festival
Kelly Tweeddale, Seattle Opera Association
Benjamin Moore, Seattle Repertory Theatre
Thomas Philion, Seattle Symphony Orchestra
Josh LaBelle, Seattle Theatre Group
Daniel Peterson, Seattle Youth Symphony Orchestra
Deborah Person, SIFF
Anne Derieux, Spectrum Dance Theater
Stephanie Stebich, Tacoma Art Museum
Sylvia Wolf, The Henry Gallery Association
Karen Lane, Theatre Puget Sound
Wier Harman, Town Hall Association
Kara O'Toole, Velocity Dance Center
Beth Takekawa, Wing Luke Asian Museum

Helicon

Impacts of Economic Downturn on Arts and Cultural Organizations in the Pacific Northwest

Interview Protocol

Leaders of arts and cultural organizations currently face daunting challenges related to both evolving trends and the dramatic downturn in the US economy. The Seattle Foundation, 4Culture, Mayor's Office of Arts and Cultural Affairs, and Paul G. Allen Family Foundation have hired Helicon Collaborative to complete a quick scan of the key impacts being felt by the arts and cultural field in the Pacific Northwest. This will assist Northwest arts funders with their planning in response to this situation. As part of this work, ArtsFund has recently launched a Surveymonkey online survey to capture basic financial information from the field. Helicon is charged with rounding out the picture created through this survey by interviewing the leaders of 20-25 organizations that represent different segments of the arts sector in the Northwest. Interviews will take no longer than 30 minutes, and will be completely anonymous. Interviewees' responses will not be attributed to a particular organization or individual.

1. What are the primary impacts you are experiencing **now** as a result of the economic downturn?
    - Effects on **revenue**: a) ticket sales/admissions/earned income; b) individual donations/corporate or foundation giving; c) earned income from rentals or other services; capital campaigns, etc.
    - Effects on **programming**: a) number and kinds of programs, b) lengths of programs, c) artistic personnel, d) partnerships and co-productions, etc.
    - Effects on **personnel:** a) lay-offs, b) position consolidations, c) adjustments to benefits, etc.
    - Effects on **venues**: a) closures, b) shifts in venues, c) postponed maintenance, etc.
    - Effects on **audiences**: a) change in profile of attendees, b) change in size of audience; shift in appetite for different kinds of work, etc.

2. What do you anticipate to be the major impacts in the next two-three years?
    - In addition to the list above, do you see any reason to adjust your mission?

3. What steps is your organization taking now to respond to changes in your capital structure?
    - Scenario planning – anticipating different budget outcomes
    - Changes in current or projected budgets
    - Changes in program plans
    - Staffing adjustments
    - Changes in fundraising and/or marketing strategies
    - Mergers with other organizations
    - New opportunities

- Other

4. Have you begun to think about longer-term adjustments? If so, what are the areas in which you are focusing your planning? How are you working differently?

5. How are you engaging Board and staff in the short-term and longer-term planning discussions?

6. Are you coordinating your planning with other cultural organizations or sharing information with others on a regular basis? Are these partnerships shifting?

7. Are there "key indicators" you are tracking that will allow you to gauge the impact of the downturn on your organization? (E.g. ticket sales for a certain show; enrollment for a certain class; annual fund contributions by a certain date; etc.)

8. Besides short-term funding to fill budget gaps, what are the 1 or 2 most important things that you and your organization need to adjust to what is likely to be a multi-year period of serious economic constraint?

9. How are you communicating changes with your stakeholders (board, audiences, funders, media partners, etc.)?

10. Aside from providing grants, what else can funders do to support your work?

Is there anything we have not asked you that you would like to add?

Thank you for your time.