HOW ARE THE ARTS BEING FUNDED TODAY?

Potential ramifications of a shift in revenue sources

ArtsFund has been analyzing data from arts and culture nonprofits across the state of Washington. These short pieces rely on data from 349 organizations, spanning 28 counties from 2019-2024, and dive into a series of reflections on specific trends, how the sector may have arrived at this place, and some speculation on what it means for the future.

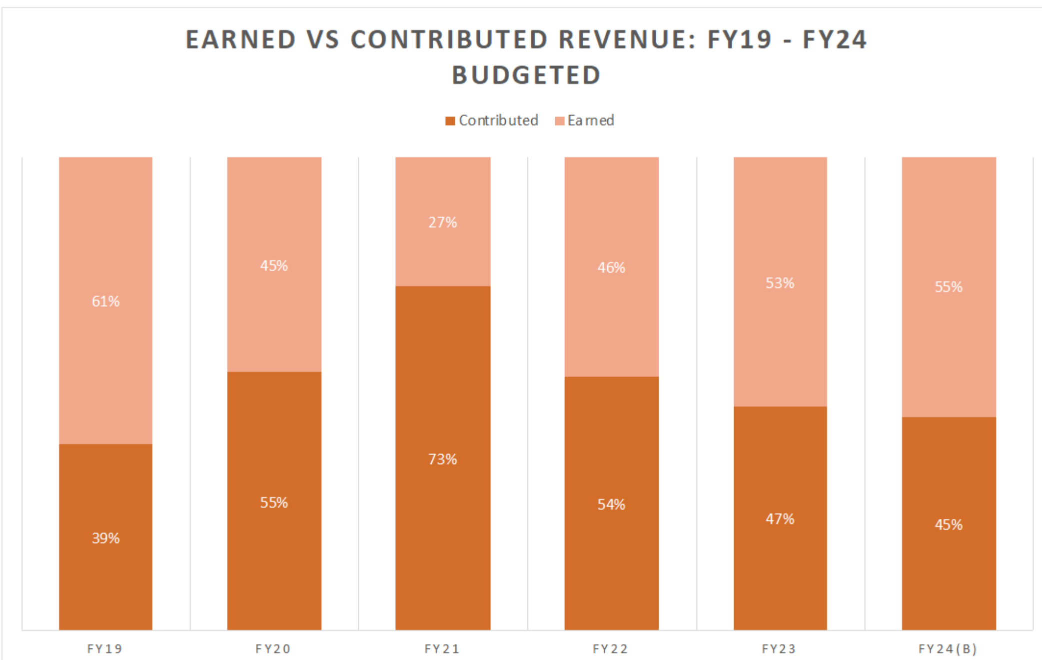
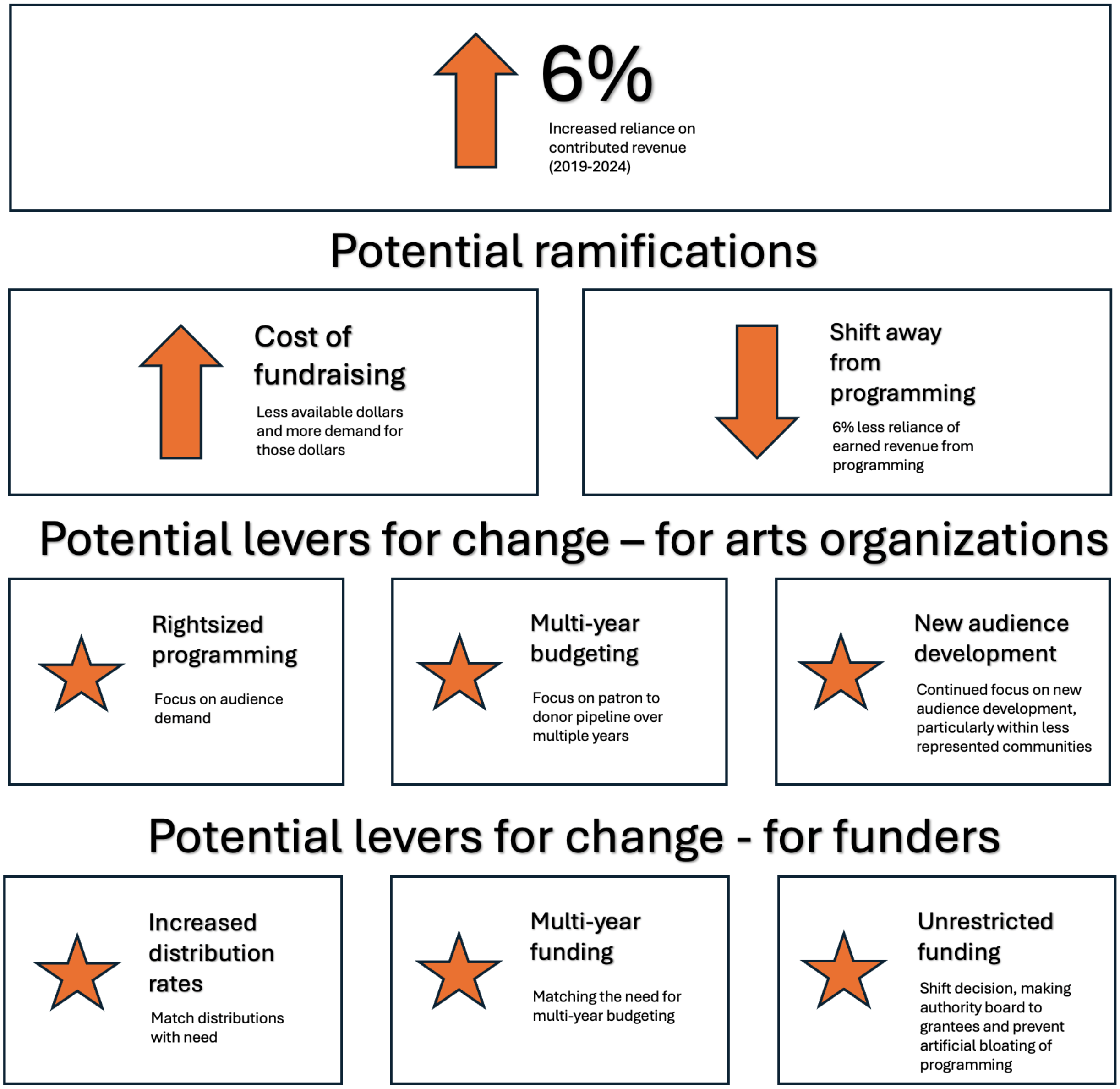


FIGURE 1- EARNED VS CONTRIBUTED REVENUE FY19-24 BUDGETED

ON AVERAGE, ORGANIZATIONS ARE 6% MORE DEPENDENT ON CONTRIBUTED REVENUE IN 2024 THAN THEY WERE IN 2019.[1]

[1] Data come from 349 organizations in 28 Washington state counties that participated in the Nonprofit Community Recovery (NCR) grant, and the Community Accelerator Grant (CAG) rounds one and two. These grant programs were funded by the Washington State Department of Commerce and the Paul G. Allen Family Foundation, respectively, and administered by ArtsFund. All numbers have been rounded to the nearest whole and data sources are provided in the footnotes when available. ArtsFund understands that there is significant variation in demographic data and how people identify. Demographic data are not definite and we understand that interpretation may vary.



Organizations, on average, have seen a shift to a greater reliance on contributed revenue since 2019. That shift has potential ramifications for where organizations are focusing their efforts, the cost of contributed revenue, and the amount of resources dedicated towards programming. While revenue composition will vary by organization, discipline, geography, etc., below highlights some potential ramifications for the shift we've seen, and some potential levers that will allow organizations to adjust that composition in a way that is appropriate for their future planning.

In 2019, organizations told us that approximately 39% of their total revenue came from contributions. This number peaked in 2021 with just over 73% of total revenue coming from contributions and has returned to 45% projected in 2024 budgets. For the organizations represented in this data, average overall revenue has increased by 14% since 2019, but 87% of that growth is coming from contributions. This places a heavy burden on fundraising and mirrors a narrative that we've heard throughout the sector.

A more traditional 60/40 earned/contributed mix was upended with the onset of Covid, followed by extraordinary giving and public sector support. In combination with an unprecedented reduction in earned revenue opportunities as doors closed and earned revenue opportunities moved almost exclusively to the virtual, revenue was almost entirely contributed at the height of the pandemic. As doors reopened and audiences returned, they did so in smaller numbers while inflation pushed up total expenses, leading to a more permanent readjustment of the earned/contributed split to something closer to 50/50.

BUDGET SIZE AND GEOGRAPHY[2]

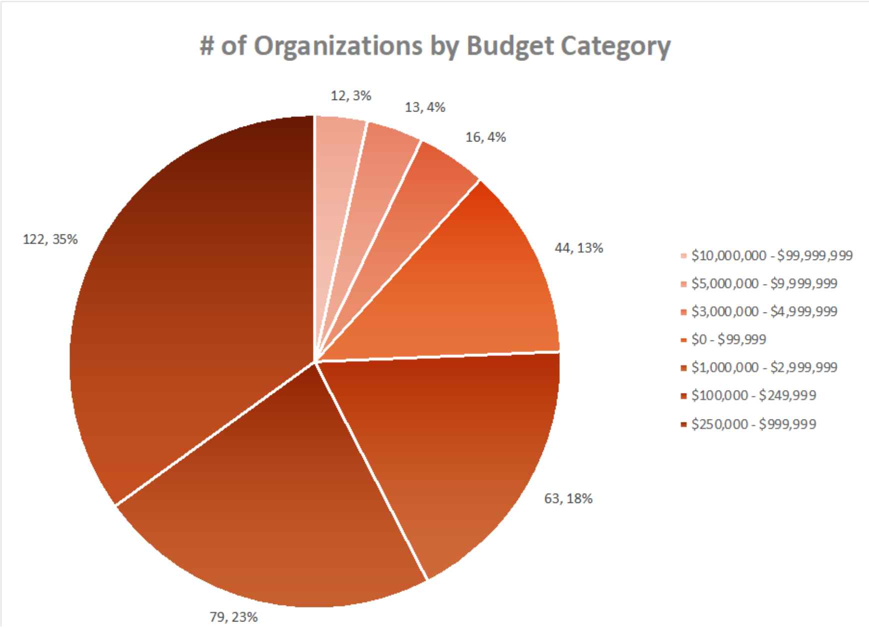


FIGURE 2 - NUMBER/PERCENTAGE OF ORGANIZATIONS BY BUDGET SIZE IN SAMPLE

[2] Budget size is defined as FY24 budgeted operating expenses. Geography is by county.

Sample sizes for subcategories of budgets and counties are not large enough to offer statistically significant results, but it is worth noting a couple observations. All budget categories followed a similar pattern of increased reliance on contributed revenue over the six-year period, except for organizations with budgets from 100k-250k and 3MM-5MM. Both groups showed a decreased reliance on contributed revenue of -2% and -16%, respectively. Both budget categories had relatively small sample sizes (n=79, n=16), so outliers had a significant effect, but it could be worth looking more into whether either of these categories had any characteristics that potentially contributed to a reversal in the trend.

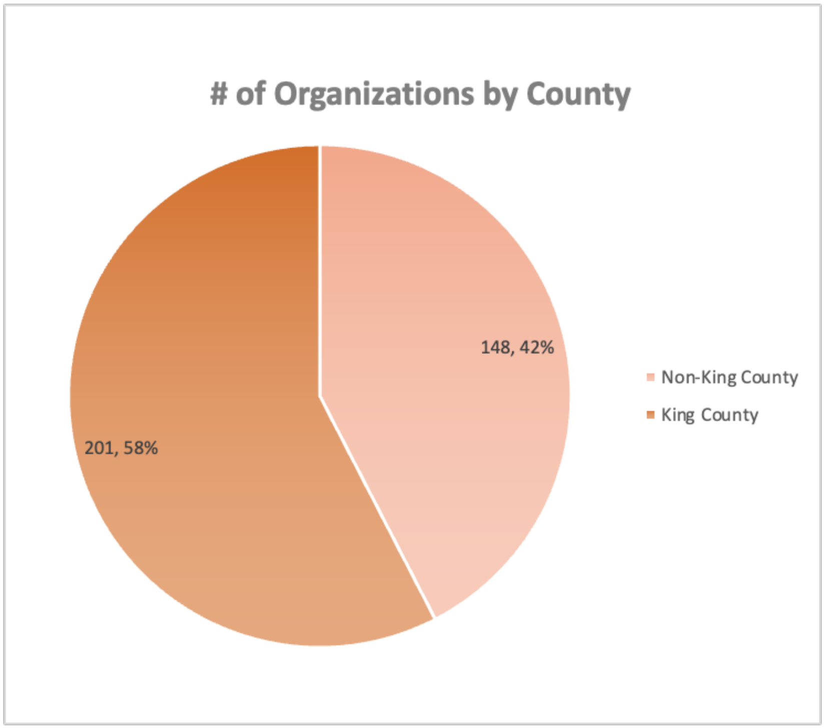


FIGURE 3 - NUMBER/PERCENTAGE OF ORGANIZATIONS BY COUNTY IN SAMPLE

Similarly, sample sizes for individual counties were as small as one in many cases, but if we look at King County (n=201), versus all other counties (n=148), we do see an increased reliance on contributed revenue in both categories (+6.62% for King County, +1.40% for all other 27 counties), but the shift is greater in King County. It's important to emphasize again that sample size may make this level of analysis insignificant and regional considerations are not homogeneous across all non-King County geographies, but the observations could warrant further studies about what characteristics in urban or rural communities affect composition of revenue. For this study, we work with the aggregate numbers as we feel they paint an overall picture of what is happening in the sector.

WHAT IMPLICATIONS DOES THIS HAVE FOR THE SECTOR?

The argument can be made that if there's an increased reliance on contributed revenue, more dollars and more focus are being spent on development activities as a percent of total expenses. It's important to recognize that while the shift in contributed revenue as a percent of total revenue has grown by 6% since 2019, total contributed revenue actually rose by over 31% from 2019 to 2024. For the small subset of 349 organizations in this study, that translates into an additional $68 million of contributed revenue that arts and culture nonprofit organizations need to find in 2024 versus 2019. The actual number for the entire sector is much larger.

MORE EXPENSIVE DOLLARS

If there is a greater necessity to bring in contributed dollars, there could be fewer available resources for earned revenue/programming. The demand for development staff has outpaced general wage inflation in recent years[3], and we assume that the total number of available contributed dollars has shrunk since the height of the pandemic, primarily because of the sunsetting of many public sector programs. Another point we hear is that older, more traditional donors are exiting the donor pool. We also know that the cost to acquire a new donor and move them through the pipeline is significantly more expensive than retaining existing donors at a higher level.[4] This overall increase in demand and reduction in supply would suggest an increased cost to raise contributed revenue.

[3] 5.3% national vs 6.4% for fundraisers in 2021-2022
https://www.ssa.gov/oact/cola/AWI
https://www.philanthropy.com/article/fundraisers-salaries-rise-but-not-enough-to-beat-inflation
[4] https://nonprofiteasy.com/ultimate-guide-to-donor-retention

Pressure to shift focus from programming

The 6% increase in contributed revenue as a percent of total revenue also means that there was a 6% decrease in earned revenue as a total. The flipside of this argument is that organizations may be tempted to focus less on cultivating new patrons through programming. It is worth noting that single ticket buyers, subscribers, and other contributors to earned revenue are the pipeline to contributed revenue, so the above argument may not hold for organizations that are looking at longer-term sustainability. However, on a fiscal year to fiscal year basis, there may be pressures to focus more on fundraising to balance budgets at the expense of programming. There is also the risk of a downward spiral. There is additional anecdotal evidence that audiences require a higher and higher level of program to attend an event. This also makes sense as infrastructure for more local/home-based entertainment has increased significantly since 2019. This is another example of increased supply in options leading to higher expectations on the demand-side for programming.

Potential Levers

We don't claim to know if this shift is good or bad, long-term for the sector. During the pandemic, and at any time when there is a significant economic shock, organizations with a larger donor base seem to be more insulated, so a shift to something closer to 50-50 might make sense. On the other side, contributions tend to be consolidated in a smaller number of major donors, so the more reliance on contributed revenue, the fewer number of community voices that are economically represented. We cannot prescribe a one-size-fits-all solution for every organization in the state, but below are a few ideas based off our data that may help organizations shift their internal practices.

For Arts Organizations

Right sizing expectations

One way of interpreting the data is that it now takes additional contributed dollars to support similar levels of programming to 2019. That is a simplistic view with a lot of nuances, depending on geography, discipline, etc., but organizations can look at earned revenue forecasts and produce programming accordingly. In ArtsFund's 2021 Covid Cultural Impact Study[5], our surveyed population said that they would most likely come back to in person programming at 50% of the rate prior to the pandemic. We are seeing better return rates in most sectors, but audiences are still not at 100% of 2019 numbers across the board. One way to shift the amount of attention we are paying to earned versus contributed activities is to make sure that we are producing at the levels audiences are asking for. This is not to say that audiences are permanently at a reduced level, but there still may be several stages of their re-introduction. That might include a mix of those who have permanently left, those that are still getting back into the habit, and new audiences that are exploring venues for the first time. Getting back to 2019 numbers as a blanket statement suggests that audience appetite is the same as what it was in 2019. That may or may not be true, but we do know that the make-up of audiences in 2024 is different and making sure that programming addresses that in the short, medium, and long-term will influence how that programming is paid for.

Multi-year budgeting

ArtsFund has recently moved our General Allocations grant program to a three-year cycle because we understand the need for our grantees to be able to budget out over a period longer than 12 months. As mentioned above, there is a lot of data that exists that show the trajectory of a first-time ticket buyer to a member/subscriber, to a donor, to a major donor, to a legacy gift. This pipeline takes years and begins with investment in programming. For organizations that are feeling pressure to deliver contributed numbers, it may help to focus on the patron pipeline and budget the growth of that pipeline over a several-year period. In order to be effective, it will be important to understand what drivers in programming lead to better attendance, what is the relationship between different types of programming and movement of patrons through the pipeline, and what is the rate of current donor attrition so that you are building more on the front end than losing on the back. A strong, multi-year budget that shows a clear relationship between earned and contributed strategy would be a way to purposely move the percentage split one way or another.

[5] https://www.artsfund.org/wa-covid-cultural-impact-study/

New Audience Development

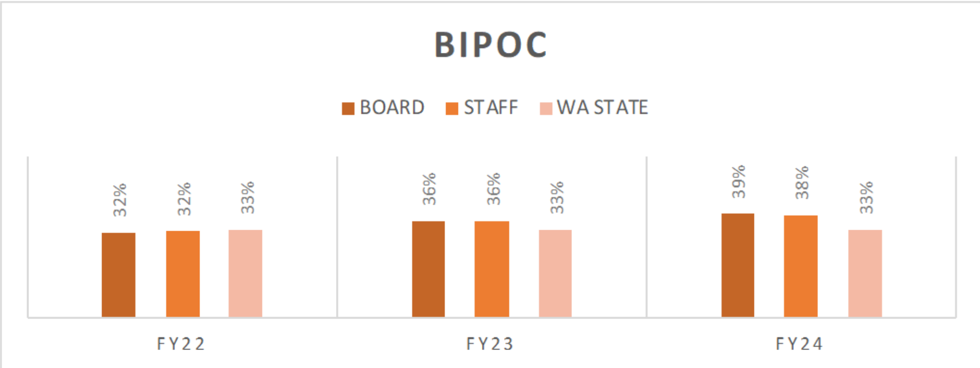


FIGURE 4 - PERCENTAGE OF BIPOC REPRESENTATION BY BOARD AND STAFF[6]

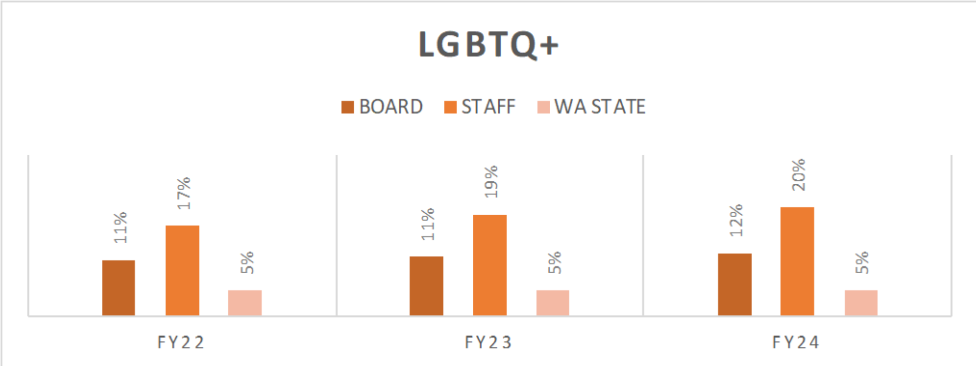


FIGURE 5 - PERCENTAGE OF LGBTQ+ REPRESENTATION BY BOARD AND STAFF[7]

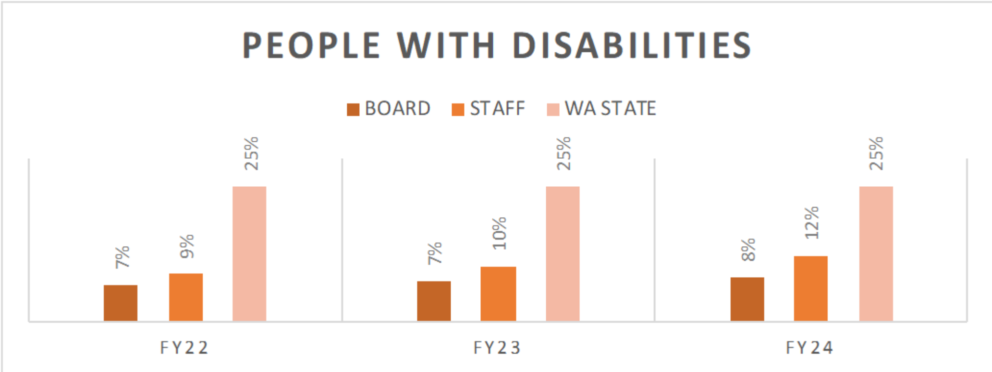


FIGURE 6 - PERCENTAGE OF PEOPLE WITH DISABILITIES REPRESENTATION BY BOARD AND STAFF[8]

[6] WA State = US Census 2020 - https://data.census.gov/table/DECENNIALCD1182020.P8?g=040XX00US53
[7] WA State = WA State LGBTQ Commission - https://lgbtq.wa.gov/data
[8] WA State = US Center for Disease Control - https://www.cdc.gov/ncbddd/disabilityandhealth/impacts/washington.html

Over the past several years, there has been a focus on including historically underrepresented communities in both audiences and leadership in the arts. At ArtsFund, we have focused on increased representation for Black, Indigenous, and People of Color (BIPOC), LGBTQ+ communities, and people with disabilities, in addition to rural populations. If we use percentages of staff and board leadership as a proxy for total engagement, you can see these named communities' representation in the arts continues to grow. While the movement is small, the direction is positive and suggests that efforts to remove barriers to participation are working. Growth for individual organizations will vary widely depending on geography, discipline, and other variables, but the point is that there is more representation for new audiences that can be part of future audience/donor development. We are purposely not framing this conversation in terms of social justice as that is another important conversation, but not the focus of this piece. The latest AED6 report from Americans for the Arts[9] showed what many people have been saying throughout the period of increased attention on communities of color. They show that the BIPOC and ALAANA[10] audiences spent the same amount on programming, food and beverage, hotels, etc., as the total population surveyed. This should help dispel the narrative that focusing on new audience development within these populations somehow translates into lower revenue potential. In fact, the opposite could be true. The data suggest that there are significant populations with dollars to spend that want to participate but may feel alienated or somehow detached from the sector. If organizations can continue to focus on what the barriers are to the full inclusion of these populations, the sector could secure a significant new pipeline of patrons and donors for the next generation.

For Funding Organizations

Increased Distribution Rates

We understand the importance of funders' ability to plan long-term for continued support of the sector. Historical data and investment best practice suggest that a 4% distribution rate will allow a corpus to maintain its purchasing power measured against inflation in perpetuity. That said, if shifts in the revenue mix for grantee organizations maintain a higher percentage of contributed revenue, funders may want to revisit distribution rates that would be more in

[9] https://aep6.americansforthearts.org/
[10] African, Latinx, Asian, Arab, and Native American

line with the industry's demand for contributed revenue. We are not suggesting that funders purposely spend down corpus, although many foundations have chosen to create sunset strategies; we are inviting funders to look at how they can match distribution rates with the need of the sector.

Multi-year Funding

To mirror the need for organizations to look at multi-year budgeting, we suggest funders consider multi-year funding to allow grantees more certainty in those long-term budget projections. The recent shift to individual ticket buying and away from subscriptions has made earned revenue budgeting more difficult. If more funders, both institutional and individual, could commit to multi-year funding, this could provide some additional predictability for organizations that are facing less earned revenue certainty.

Unrestricted Funding

ArtsFund has long been a proponent of unrestricted funding. We firmly believe that the sector is under-resourced compared to its economic and social value to the community, and the people who best understand how and where to use new resources to create the highest form of impact in their communities are those closest to the work. In relation to this paper, unrestricted funding allows organizations more control of how to right-size programming and operations. A complaint about project-based funding is that it has the potential to artificially bloat programming as organizations often feel the need to create or support the types of programming that have the best potential for funding, even if they are not in alignment with community need or long-term strategic plans. The more funders that can provide unrestricted grants, the more control grantee organizations will have over their internal strategies and long-term planning. If we trust organizations to know best about what the needs are for their community, this seems like a logical approach for funding best practices.

CONCLUSION

The shift to more reliance on contributed revenue has both positive and negative potential effects on the nonprofit arts and culture sector, but the exact way that this shift can impact an organization will depend on many specific factors. Organizations should pay attention to their specific mix of earned versus contributed revenue, and how they are dedicating resources to support the two. The goal is a healthy split that balances community support with commercial success. Those things are not mutually exclusive and can often complement each other over the long term. Funders should pay attention to the fluctuating need of contributed income, how they can match that need in terms of amount and longevity of commitment and should continue to put more trust in grantee leadership through unrestricted funding.

Overall, the arts and culture nonprofit sector continues to be a significant part of our community landscape. Using phrases such as "back-to-normal", or "recovered", take away from the reality that the place we are in today is simply different from where we were in 2019. The point of this article is to highlight a small piece of how the economics have shifted in terms of funding, and to draw attention to some potential levers that organizations can use to adapt to those changes. That said, whether funded through contributions or through earned income, the positive effects of a healthy arts and culture community are the same as they've always been, and we encourage the support of our local institutions in all forms. A healthy arts and culture community will lead to a more healthy, equitable, and creative Washington. Public, private, and institutional support is critical for that future.