Arts Funders and the Recession
A Year Later

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Arts Funders and the Recession: A Year Later

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In spring 2009, GIA commissioned Helicon Collaborative to provide an overview of the recession’s effects on arts funders. We interviewed twenty-two diverse funders and reviewed results of electronic surveys of arts funders conducted by GIA and New York Grantmakers in the Arts. The findings were published in the summer 2009 Reader.

The economy has not improved in the intervening fifteen months, and reduced resources and an uncertain economic future continue to affect the outlook and behavior of both arts funders and cultural organizations. To track the continuing story, GIA conducted another electronic survey of its members in July 2010 and asked Helicon to interview a cross-section of arts funders. GIA sent its survey to 251 GIA members; 65 people completed the form (a 25.8 percent response rate). Helicon interviewed representatives of twenty corporate, community, and private foundations, including many from the original sample. This report summarizes the highlights from the survey and interviews.

Summary of Findings from Survey and Interviews

The picture for arts funders is much the same as it was in 2009. There appears to be a significant rise in provision of general operating support and a meaningful decrease in funding for facilities and capital projects, but the vast majority of funders have not changed their strategic focus as a result of the recession. About 30 percent of the survey respondents have maintained last year’s level of funding; approximately 37 percent have increased their grantmaking somewhat; and about 33 percent have trimmed their grant pools between 1 percent and 30 percent. The mixed picture also holds for support for individual artists: some foundations have increased their focus on support for individuals and a few have curtailed it. The only consistent national pattern is a universal drop in state arts agency budgets, which in aggregate have decreased by 25 percent over the past three years. Many states have eliminated support for artists altogether.

In 2009, we saw most funders taking steps to address the recession with new technical assistance programs. That trend has continued and expanded as many funders have organized training programs themselves or subcontracted with service providers such as the Nonprofit Finance Fund.

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A number have launched new loan or credit programs, working alone or in collaboration with other funders and service organizations. Funders continue to tighten their own belts by curtailing administrative expenditures and instituting hiring freezes. And many funders, especially corporate and community foundation officers, report that making the case for arts support is getting harder in the face of pressure to address mounting human service and social service needs.

Perceptions about Funders

The Majority Have Not Changed Grantmaking Focus

From the survey and the interviews, it appears that only a few arts funders have shifted their strategic focus in the past year, and those that have made shifts indicated that they started planning for those changes prior to the economic downturn. The vast majority of arts funders report that they have not changed the basic focus of their arts grantmaking in response to the recession, and — for the most part — have retained specific grant programs (66 percent), the kinds of organizations they fund (93 percent), the number of grants they make (82 percent), and the size of their grants (83 percent). A few funders have reduced the size of grant programs or eliminated one or more specific programs. A few have outsourced grant programs to service organizations. Several of the foundations that have changed their program focus have moved away from organizing arts and culture as discrete programs and toward integrating the arts into cross-disciplinary program initiatives focused on such themes as community development, social justice, or education reform.

Mixed Picture on Total Funding Pool

About 30 percent of survey respondents are allotting the same amount of funds in 2010 as they did in 2009. About 37 percent have increased their arts funding in comparison to last year (from 1 percent to more than 20 percent) and about 33 percent have reduced their arts funding (from 1 percent to more than 30 percent).

With a few notable exceptions, including Cuyahoga County, Ohio, and the state of Minnesota, for example, where recent legislative acts have established new revenue streams that benefit the arts, cuts to public funding at state and city levels are more pronounced than they were a year ago. In aggregate, state arts council funding will drop 25 percent from 2008 to 2011. Since 2001, total state arts funding has dropped from $450 million to $268 million. States are making fewer grants and smaller grants and, in some cases, eliminating support for artists altogether.
Existing Commitments Are Highest Priority; General Operating Support Increases

Existing commitments continue to be arts funders’ highest priority. Seventy-five percent of survey respondents indicated that they have increased operating support grants by shifting away from project grants altogether, changing existing project grants to operating support, or by supplementing project grants with general operating funds. Other patterns, just nascent last year, have become more widespread. Many we interviewed are not taking proposals from new applicants and find it necessary to turn down more proposals than they did before the recession. A number of funders report that they have loosened their guidelines for those groups that are eligible and have relaxed their matching requirements and/or grant modification policies.

Emergency Responses

Arts funders have built on and expanded special “relief” initiatives started in 2008 and 2009. Among them are technical assistance programs helping arts groups with scenario planning, business planning, and financial management (including cash flow management). A number of funders have sponsored workshops or other kinds of training on marketing and social media, partnerships and collaborations, mergers and strategies for adaptation. Several funders have financed the creation of low-cost office space and shared back office services for arts groups; others have created or expanded loan funds.

Artists’ Support

Twenty-seven percent of survey respondents indicated they have increased support for artists, and only 2 percent reported decreasing this kind of funding. Some funders have doubled the number of awards to artists, and others have placed greater emphasis on support for artists in all their project grants. In several cases, funders have initiated or funded special initiatives designed to provide technical assistance for artists, access to health insurance, or other kinds of support.

Capital Grants

Funding for facilities may be the hardest money to secure from foundations in the recession. Funders that have fulfilled their prerecession commitments to capital projects are not making new grants for facilities.

Administrative Cuts

Funders have continued to cut their own administrative spending. Close to 60 percent have implemented hiring freezes; 30 percent have experienced staff cuts, benefit reductions, or furloughs. More than 63 percent have reduced spending on travel, conferences, memberships, and related discretionary costs.

The Case for the Arts

Most private foundation officers report that support for the arts in their foundations is firm and that the arts portfolio is not being reduced disproportionately to other fields of interest. The corporate giving programs and community foundation officers we interviewed, however, indicate that the case for arts funding is getting much harder to make in their organizations, where there is growing pressure to address hunger, homelessness, social needs, and other community problems exacerbated by the economy. We also heard about a growing concern regarding the potential impacts of stepped-up congressional oversight of foundations and the work of the Greenlining Institute, which is working to democratize philanthropy and ensure that larger portions of philanthropic funds are directed to minority-led organizations and poor communities.

Funders’ Morale

Last summer, funders described themselves as reeling from the shock wave of the recession. No one is in shock any longer. It is clear to everyone that we are experiencing a severe and prolonged economic disruption, and that is no longer a surprise. But whereas last summer, the feeling of shock was universal, this summer arts funders seem to have divided into two clear camps: those who are profoundly discouraged by the emerging reality and those who see great opportunity in the change we are experiencing. We found no one in the middle.

Two quotes reveal the divide:

“I’m more pessimistic than I was a year ago. I think there is less nimbleness in the arts sector, more strain. The political environment is so poisonous that the arts are an easy scapegoat. The traditional economic arguments for the arts appear completely empty now, and the ‘spirit’ arguments are laughable to many.”

“This is an exciting time. Things are so screwed up that people turn to the arts as one of the solutions, as a resource and a place for community. The artists give me hope. They continue to innovate, to collaborate, to find new ways, to keep making good and sometimes extraordinary work.”

Perceptions about Arts Organizations

Midsize Groups Are Suffering the Most

The consensus among the funders we interviewed is that midsize cultural organizations are having the most difficult time grappling with the impacts of the recession. Most
larger groups, while hurting, have at least some financial reserves and substantial fundraising capacity. Smaller groups, including artist-run organizations, have a tradition of living on very modest budgets and of being nimble and scrappy. Midsize organizations, and those in the midst of capital campaigns, have substantial fixed costs but few reserves and limited capacity to either quickly cut expenses or increase revenue. A number of funders noted that independent of size, the organizations that made significant budget and program cuts early in the recession appear to be faring much better than groups that reacted to the economic downturn by making continuous incremental reductions. “One big surgery is far better than death by a thousand cuts.”

Mixed Picture on Audiences and Contributed Income

In 2010, funders believe the drastic drops in audiences and contributions that many arts groups experienced in 2008 and 2009 have abated, but they perceive a mixed picture on ticket sales and admissions. Some cultural groups are attracting audiences and donors as well now as they were last year at this time — if not in greater numbers; some are experiencing continued erosion. Several funders mentioned that some performing arts organizations seem to be changing their approach to ticketing by reducing the lowest-price tickets and raising the highest-priced ones in recognition of the stratifying capacity of audiences. Some expressed concern that any loss of audience is likely to be long lasting, as people satisfy their entertainment needs elsewhere and lose the habit of attending nonprofit cultural offerings.

Collaborations

Each of the funders we interviewed could cite one or two examples of a merger, closure, or partnership that has occurred as a result of the recession. And some could give examples of hybrids that have emerged in the past few years, whereby for-profit organizations are taking on functions traditionally performed by nonprofit arts groups (commercial stores showing visual artists’ work, for example, or restaurants curating very strong performing arts series). But the funders all remarked that their examples were the exceptions that proved the larger rule: there is real resistance to consolidation in the arts, and most partnerships that do form are programmatic rather than institutional. Some of this resistance is endemic in a field driven by strong personalities with unique visions, but some of it may be a direct result of the recession. Because of expanded workloads and decreased staff capacity, arts managers are more isolated and out of touch with peers now and less likely to see opportunities for collaboration. One funder summarized the result: “All the chatter we’ve heard about mergers, closures, and hybrids is just that — chatter. It’s not happening in any quantity as yet, and seems unlikely to increase in the future.” None of the funders we interviewed suggested that they are looking for ways to invest in arts and cultural development outside the 501(c)(3) framework.

Human Capital

Arts funders are gravely concerned about the effects of the recession on the people who work in cultural organizations and on artists. Staff reductions and pay cuts are almost universal in the sector; furloughs are commonplace (some going into their second year); cuts to benefits are widespread. The staff members who remain are being expected to shoulder bigger workloads. Many funders know these conditions are unsustainable, and they worry that large numbers of people will either leave their positions precipitously or become ill. The strains on artists are also very worrisome, as opportunities to showcase and sell their work are curtailed and funding programs are reduced in number and scale.

Adaptable Groups Distinguished by Certain Qualities

In last year’s interviews, we asked about those qualities that distinguish the groups that are adapting to changing circumstances most capably. There was almost unanimous agreement that those qualities include:

- Courageous leaders who ask tough questions about their organizations’ relevance and impact
- Relentless focus on core mission
- Flexibility on organizational form and willingness to change form to adapt to changing conditions
- Genuine engagement with community
- Forecasting ability and interest in the larger forces affecting viability
- Strategic thinking

Those interviewed this year confirmed these core characteristics but made a few additions:

- Capacity to radiate contagious excitement about the work of the organization
- Seeing opportunity in change and taking advantage of it
- Using technology inventively and in ways that are sustainable by the organization

A year ago, we found there were still people — funders and arts leaders alike — who wanted to believe that the recession would be short-lived and its effects temporary. Now everyone realizes that we’re never going back to the world we knew before December 2007.
And many cited Michael Kaiser’s advice, suggesting that those who follow his key rules will fare better than those who don’t:

- Great programming marketed well
- Thinking three to five years ahead on program planning

Evolving Operating Assumptions
Both funders and arts groups are searching for new business models, but alternatives are scarce and likely to emerge only incrementally. Some funders suggested, however, that many of the operating assumptions underlying the nonprofit arts model are shifting perceptibly and that these shifts will influence the development of the sector over the next few years.

Some of the shifting assumptions noted in our interviews include the following:

- Adaptation will replace growth as the basic modus operandi.
- Artistic and administrative leadership will be increasingly decentralized.
- Tailored relationships with customers will replace mass marketing.
- The distinctions between nonprofit, for-profit, and informal cultural and creative enterprise will be increasingly and intentionally blurred.
- Cultural institutions’ live and virtual identities will need to align or audiences attracted by exciting, interactive online offerings will be turned off by and turn away from what they perceive as more conventional, pedestrian live events.

Conclusion
A year ago, we found there were still people — funders and arts leaders alike — who wanted to believe that the recession would be short-lived and its effects temporary. Now everyone realizes that we’re never going back to the world we knew before December 2007. And given the very slow recovery and the continued volatility of the stock market, the funders we interviewed do not think it’s going to get better before 2013, if then. As one funder said, “The three-year rolling average will keep funders’ payouts low, even after the recovery. This is not a heat wave. This is climate change.”

If it’s not going to get better until 2013, at the earliest, what are the opportunities for funder leadership in the next two to three years?

The majority of funders we interviewed perceive the recession to be accelerating necessary changes, most of which were under way before the economy collapsed.

While change comes slowly to the funding sector and the shifts are sometimes subtle, our interviews suggest that most funders are trying to address one or more of the larger trends by:

- Helping cultural groups improve their capitalization and become more informed financial managers.
- Helping cultural groups grapple with demographic change, shifts in audience behavior, and changing expectations of their younger staff members and audiences.
- Encouraging artists to act on their own behalf and/or enabling cultural groups to sustain their investments in new work and extended relationships with artists.
- Pushing cultural groups to reimagine their role in and relevance to communities.
- Encouraging cultural groups to inventively use social media and other tools to contribute to and benefit from the exponential rise in people’s electronic networking.

GIA’s National Capitalization Project, funded by the Kresge Foundation, is a very positive effort to strengthen funders’ knowledge of and galvanize action on one of the most complicated and important issues facing the field today. This may serve as an inspiration, and a model, for collaborative action on the other strategic points of change. As the world reforms itself in the wake of the recession and other tectonic social, technological, and political forces, there is an opportunity for arts funders to think together, and in new ways, about why, where, and how people connect with culture and creativity and to identify more adventurous ways in which they can help artists, cultural organizations, and communities evolve.

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