Introduction

Many arts organizations in New York City have benefited from the prosperity of the times, but the complex job of translating private wealth (primarily created by the robust financial markets) into private contributions leads to uneven distribution and over-reliance on one sector of the economy. If the economy falters, or if government support declines—as this report shows it has since 1982—the financial well-being of the cultural organizations will be jeopardized.

The purpose of this report is to sound an alarm that New York City's arts organizations, from the largest institution to the smallest experimental group, must broaden their financial base, looking especially to corporations and government, whose support has declined significantly. Even earned income from concessions and admissions, which increased significantly in the study period, has stalled in recent years.

We feel this concern about the cultural community's vulnerability is a reasonable interpretation of the trends described in this report. Both our findings and this interpretation are offered to encourage public discussion.

New Research

This is the first analysis of income sources published by the Alliance for the Arts. The Alliance is already known for its studies of the economic impact of the arts, done in collaboration with the Port Authority of New York and New Jersey in 1993 (and in 1983 by its predecessor with the Port Authority) and with the city and state arts agencies in 1997.

Little is known about the economic health of the nonprofit arts community, although most New Yorkers understand its importance to the city on several levels—cultural, economic and symbolic. With this report, we begin a new series of studies which will inform the industry itself, and those in public and private life who care about it.

Sources

The report is based on information generously provided by the New York State Council on the Arts. Our sample for FY 1998 was drawn from data from the Final Reports of 300 arts groups selected at random from every part of city. Data for earlier years are from NYSCA Final Reports for those years. We thank NYSCA for its cooperation. We are also grateful to the New York City Department of Cultural Affairs, in particular, for providing additional information on the Cultural Institutions Group representing the 34 institutions owned by the City of New York, and to the Alliance of Resident Theatres for allowing us to quote from their recent study.

Special thanks to Archibald Gillies and the Andy Warhol Foundation for the Visual Arts for their concern about the welfare of the entire cultural community and for their support of this study.

Randall Bourscheidt
President

Trends in Income Sources for New York City Cultural Organizations

Since the early 1980s, there have been significant changes in the way that New York City's nonprofit cultural sector derives income. This analysis of these changes is based on data that have been gathered by the Alliance for the Arts starting in 1982.

In analyzing the data presented in this report, the Alliance finds that the trends in income sources of nonprofit cultural organizations in New York City are consistent with the public perception of growth and vitality in this sector. In particular, they have increased both their earned income and contributions from individuals and foundations. However, we wish to bring three warning signals to the attention of the cultural community, and to those who care about its continued excellence in New York City:

- **The era of rapidly rising earned income derived from gift shop sales, space rentals and other such activities is over.**
  After a period of dizzying development of this cluster of activities during the 1980s, the growth in the share of total income contributed to the nonprofit cultural sector by these areas has slowed dramatically. There has been no significant growth in the proportion of income derived from these activities since 1992. This is a natural course of events, in which a new series of "product lines" has been developed from a small base, and has matured into a major source of income for some of the cultural organizations. There will be continued growth in specific cases in this area, but the rate at which the established income from these activities is growing, and the rate at which more cultural organizations are entering this market, has slowed considerably.

- **The traditionally important role of local funding for the arts in New York City has steadily diminished during the 1980s and 1990s.**
  In FY 1998, the share of New York City's nonprofit cultural sector's income from City funding was about half what it was in FY 1982. The budget of the Department of Cultural Affairs reflects this decline. During the last segment of the study period, from FY 1995 to FY 1998, the Department of Cultural Affairs budget increased by 1.5 percent while the New York's inflation rate was 6.7 percent over the period.

- **This seventeen-year data history shows a noticeable decline in the importance of corporate funding.**
  In the aggregate, corporate funding has not been a major source of income for the arts, contributing 5.6 percent in FY 1982. However, the 3.9 percent share in FY 1998 represents a 30 percent share reduction that is unlikely to be restored in the current streamlined business environment.

These warning signs grow out of our analysis, which is outlined below.

Earned Income

New York City cultural organizations, as a group, have become more self-sufficient over the last seventeen years, with earned income increasing from 34.3 percent of total cash income in FY 1982, to 45.6 percent in FY 1998. Both admissions income and concession and other earned income have increased significantly, but the increase in concession and other earned income has been the more dramatic. Admissions accounted for 20.4 percent of total cash income in FY 1982, and 22.8 percent in FY 1998. The share of income from concessions and other earned sources has risen much more dramatically. In FY 1982, concessions and other accounted for 13.9 percent of total cash income. In FY 1998, it accounted for 22.8 percent. This represents an increase of 64 percent. This set of activities has become a visible part of the fabric of the cultural sector. Gift shops thrive in museums and performing arts spaces, corporate functions are held in cultural centers.

The rapid growth in the share of income from these sources appears to be slowing, however. The slowing of growth in this area would appear to be a natural function of the maturation of this set of activities. Despite the robust state of concession and other income, it would be surprising if this now mature set of activities continued to increase significantly in importance in the overall income picture. While further developments in concession and other income will undoubtedly continue, it is probable that as a group, the nonprofit cultural organizations have already realized the great portion of their potential in this area. In fact, concessions and other earned income played a more important role in FY 1995, when it accounted for 26.9 percent of total income, than it did in FY 1998, when earned income fell to 22.8 percent of total income.

Earned Income Sources as a Percentage of Total Income

	FY1982 (percent)	FY1992 (percent)	FY1995 (percent)	FY1998 (percent)
Earned Income Totals	34.3	45.0	52.4	45.6
Admissions	20.4	23.5	25.5	22.8
Concessions and Other	13.9	21.5	26.9	22.8

Contributed Income

Contributed income from private sources (foundations, corporations and individuals) has increased moderately as a share of the total income of nonprofit cultural institutions. In FY 1982, private giving accounted for 25.9 percent of total cash income. This share grew to 28.3 percent in FY 1998, an increase of 9.3 percent. All of this growth is attributable to growth in foundation giving. In FY 1982, foundations accounted for 6 percent of total income; by FY 1998, the share had almost doubled to 11.1 percent. However, corporate contributions have declined over the period analyzed, particularly in the last several years. In FY 1992, corporate giving accounted for 7.8 percent of total cash income, a significant increase over the FY 1982 share of 5.6 percent. By FY 1998, however, only 3.9 percent of total income came from corporate sources. Individual giving to nonprofit cultural organizations has been fairly steady as a percentage of total cash income.

Contributed Income as a Percentage of Total Income

	FY1982 (percent)	**FY1992** (percent)	**FY1995** (percent)	**FY1998** (percent)
Contributed Income Totals	25.9	29.2	26.3	28.3
Foundations	6.0	9.5	9.4	11.1
Corporations	5.6	7.8	5.1	3.9
Individuals	14.3	11.9	11.8	13.4

Government Funding

Overall, income from the public sector has declined sharply as a share of total cultural organizations' income. In FY 1982, government funding accounted for 28.9 percent of New York City's cultural sector's income. By FY 1998, that share had decreased by 62 percent to 11.1 percent of total cash income. State funding, at about 2.5 percent of income has declined from 3.5 percent of income in FY 1982. Other sources of public funding have declined much more significantly. Federal funding, as a share of the total, has nearly disappeared, dropping by almost 88 percent as a share of total income, from 9.7 percent of income in FY 1982 to 1.2 percent in FY 1998. City funding, as a share of total income, has decreased by more than half (52 percent) from 15.7 percent of total funding in FY 1982 to 7.5 percent in FY 1998. This reflects a combination of growth in the nonprofit cultural sector and decline in the New York City funding levels (adjusted for inflation). During the last segment of the study period, FY 1995 to FY 1998, the Department of Cultural Affairs expense budget rose by 1.5 percent, including challenge grants. Over the same period, the New York metropolitan area consumer price index rose by 6.7 percent.

Government Funding as a Percentage of Total Income

	FY1982 (percent)	FY1992 (percent)	FY1995 (percent)	FY1998 (percent)
Government Funding Totals	28.9	19.6	13.1	11.1
Federal	9.7	3.2	2.1	1.2
State	3.5	4.7	3.6	2.5
Local	15.7	11.7	7.4	7.5

Endowment Interest and Other Unearned Income

Endowment interest and other unearned income are significant and moderately volatile sources of income for New York City nonprofit cultural organizations. They have fluctuated between 6.2 percent and 13.9 percent of total income over the study period, in synch with the financial markets.

Endowment Interest & Other Unearned Income as a Percentage of Total Income

	FY1982 (percent)	FY1992 (percent)	FY1995 (percent)	FY1998 (percent)
Endowment Interest & Other	10.9	6.2	8.2	13.9

Diversity Within Cultural Organizations' Income Patterns

These trends in sources of income reveal the broad financial reality in which nonprofit cultural organizations operate, but mask the diversity of their individual income statements. Two examples, drawn from a sample of 1998 NYSCA final reports, will give an idea of the variations within these figures.

The Metropolitan Museum of Art, for example, is one of the city's most prominent cultural organizations. A City-owned institution, it earns 35 percent of its income from admissions, concessions and other earned sources. It has taken advantage of its considerable resources to develop earned income through admissions, gift shop and catalogue sales, rental of galleries for corporate functions and other means. Its total earned income, as reported to NYSCA, was $40.6 million in FY 1998. It also draws from a broad base of government funding and contributed income. Its government funding of $17.1 million is derived mainly from New York City. Private sector donations from foundations, corporations and individuals account for an even greater amount, $26.6 million in FY 1998. And even more, $30.7 million, is derived from the interest on its endowment. All of these substantial resources combine to enable the Met to maintain its extensive operations, which help make it the city's largest tourist attraction, serving an audience of more than five million people.

Hospital Audiences, on the other hand, is almost completely dependent on unearned income, most of which is government funding, primarily from New York City, which gave the organization $2.9 million in FY 1998. Its mission—to bring performing artists into the city's hospitals and to transport patients and the elderly to concerts—does not lend itself to developing a base of earned income, yet it administers the support it receives very efficiently. With a total budget of just over $4 million in FY 1998, Hospital Audiences served 336,180 patients, at an average cost of about $12 each.

The two examples given above are drawn from the hundreds of disparate organizations sampled, to illustrate the wide disparity among New York City's cultural organizations. Two other studies of groups of nonprofit cultural organizations shed further light on changing patterns of income in this field.

The Cultural Institutions Group

An analysis of sources of income for the 34 City-owned institutions (CIG), shows that, as a group, these organizations have enjoyed robust growth of nearly 57 percent in total income, and 17 percent in attendance during the period from FY 95 to FY 98. This increase was driven by a very strong increase (80 percent) in earned income. Private contributions grew by nearly 57 percent during this period as well. In the same period, there has been virtually no increase in government support. In FY 1995, the city-owned institutions' total government support was nearly 23.8 percent of its total cash income. New York City provides the largest proportion of government funding received by these groups, amounting to 20 percent of total income. In FY 1998, however, total government funding was only a little more than 16 percent, with 13.8 percent coming from the city. The result is a fundamental shift in income to private contributions and away from government funding. (This decline in New York City's support to the CIG as a proportion of their total budgets has not changed the fact that they as a group, still receive the bulk of all City cultural funds. Individually, these organizations also receive a higher proportion of their income from City funds than do most arts other arts groups in New York.)

Nonprofit Theater

New York City's nonprofit theaters are experiencing many of the same trends seen elsewhere in the arts. Earned income, which represented 57 percent of total income among 91 theaters surveyed in FY 1997, increased by 14 percent over the previous year. Private giving, primarily from foundations and individuals, increased by 21.5 percent. Total government funding dropped by 9.7 percent from the 1995-96 season to the 1996-1997 season, despite a 14.6 percent increase in funding from the New York State Council on the Arts. National Endowment for the Arts funding was down a dramatic 38 percent while New York City's funding declined 3.6 percent. Overall, income among these nonprofit theater groups grew by nearly 12.6 percent in these two seasons.

Conclusion

New York City's cultural organizations, as a whole, have thrived in recent years, enhancing the attractiveness of the city to residents and visitors alike. They have clearly benefited from the strong economy in increasing both their earned and contributed income. In particular, they have tapped into their earned income potential with impressive results. The trends reported on in this study indicate, however, that these increases in earned income can be expected to slow significantly, and that traditional sources of income from corporations and the public sector are diminishing dramatically. This combination leaves the city's nonprofit cultural organizations vulnerable. New York City's strength as a world leader in the cultural sector will only be sustained by a balance of all the sources of support that have made it the powerful asset that it is.

Sources

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NYSCA Final Report Forms for FY 1998.

CIG Data from the New York City Department of Cultural Affairs.

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