The Post-pandemic Financial Landscape of Nonprofit Arts Organizations

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SMU DataArts

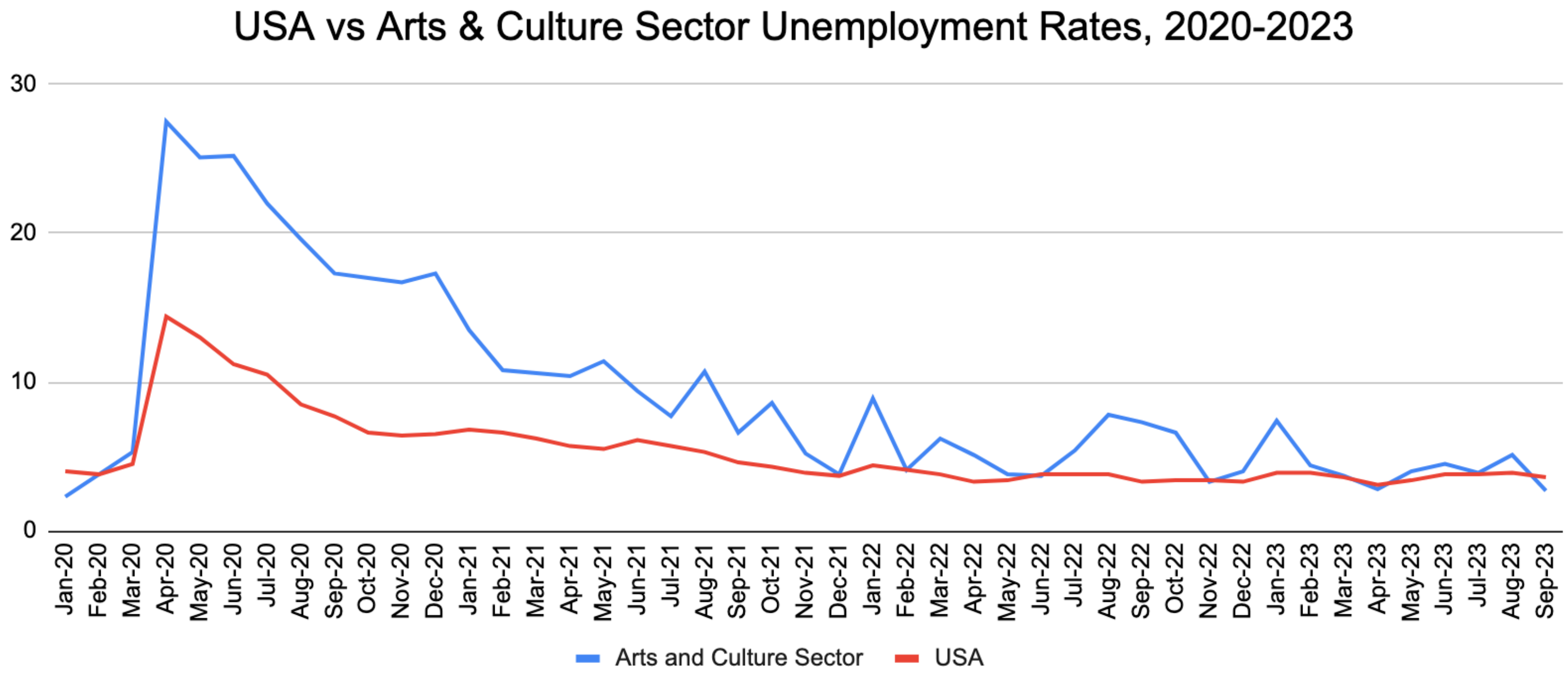
WHY ARE WE HERE?

- As cultural organizations emerge from the pandemic better capitalized than ever before, many are experiencing a perfect storm of workforce crisis, dwindling attendance, disappearing relief funding, and rising costs. Balance sheets hide an emerging financial crisis.

- Organizations must transform, and learn from change, in response to unfavorable market trends. This change must occur as a collaboration between nonprofit leaders and their supporters. When funders recognize that grantees know best what their communities need, the field can find new pathways to health.

- Sector-wide efforts to address funding inequities have led to financial improvements for many organizations of color. However, these groups will require sustained access to revenue and capital, given historical imbalances and inadequate access to community resources.

UNEMPLOYMENT IN THE ARTS WAS DOUBLE THAT OF OVERALL NATIONAL UNEMPLOYMENT FOR MOST OF THE PANDEMIC



White unemployment in the arts was .5% below the overall A&C rate, BIPOC unemployment was 2.5% above

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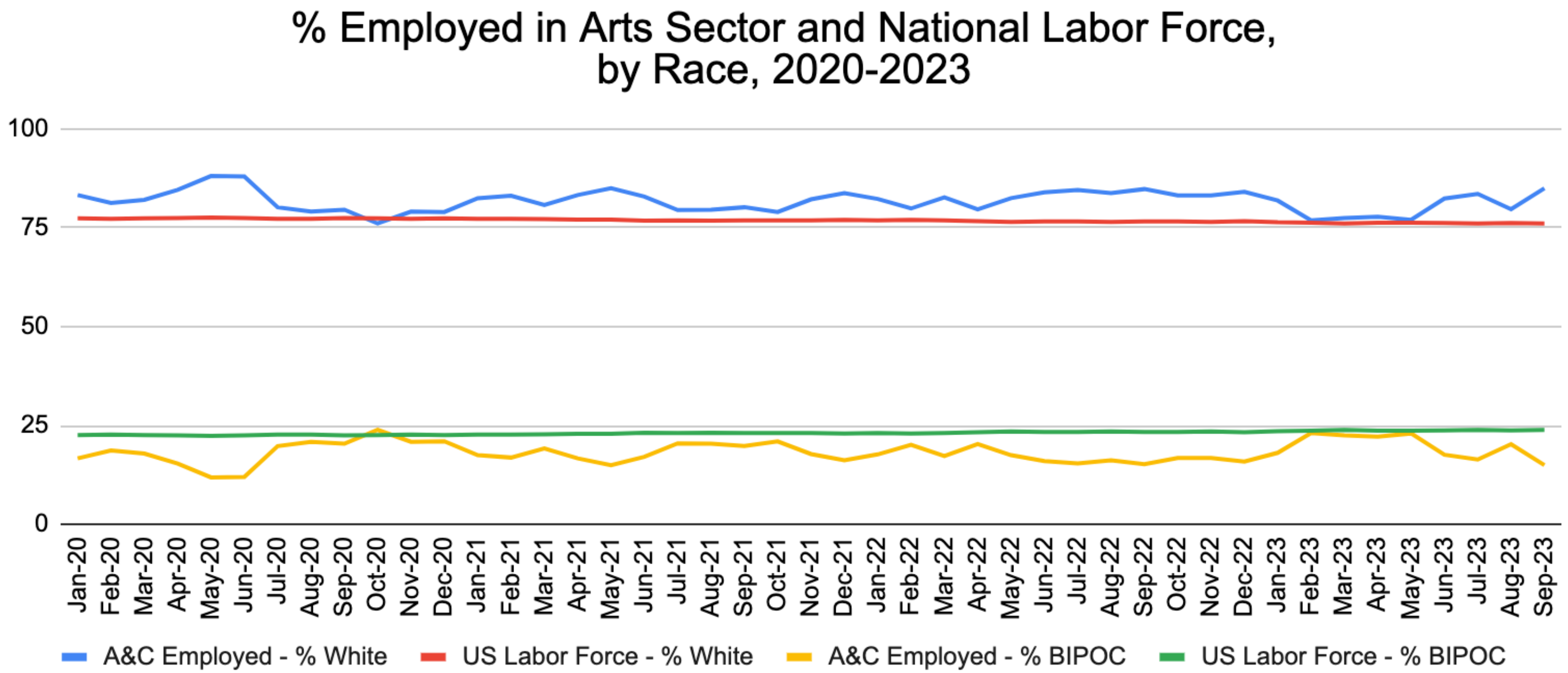
ARTS AND CULTURE EMPLOYMENT VS. NATIONAL LABOR FORCE, BY RACE



As overall arts employment has returned to pre-pandemic levels, lack of equitable BIPOC representation remains

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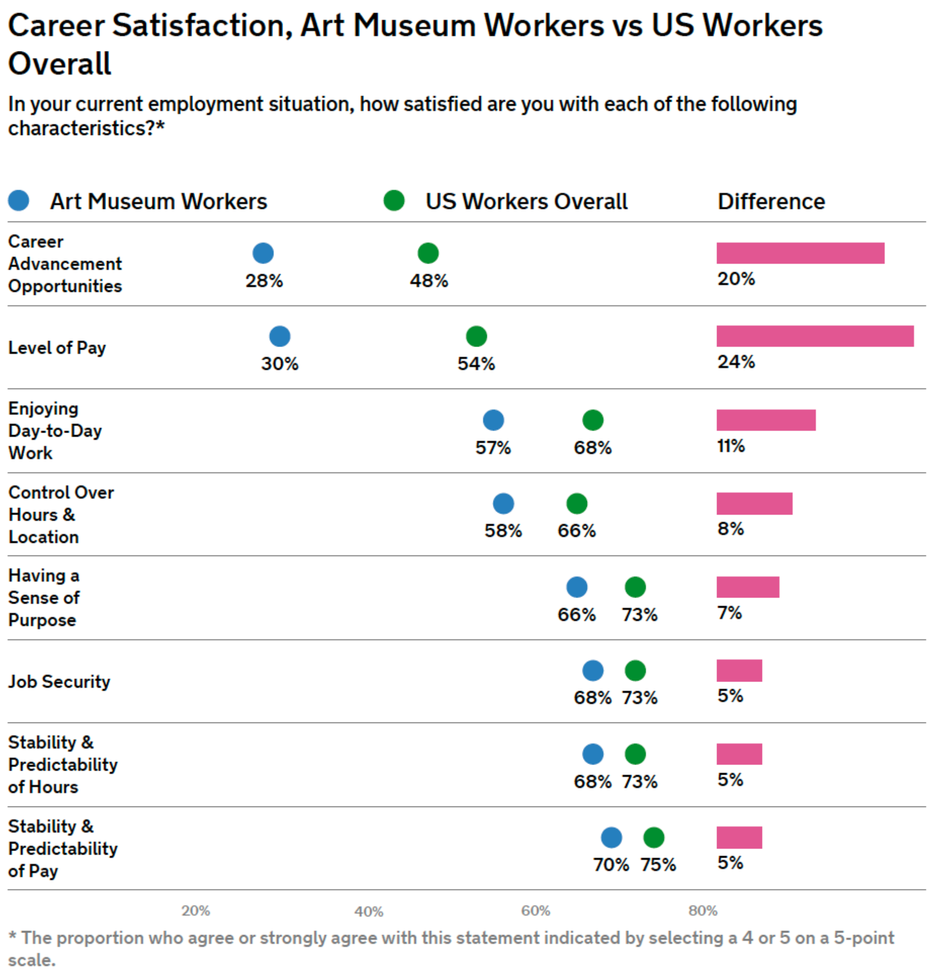
CAREER SATISFACTION AMONG ART MUSEUM WORKERS IS LOWER THAN US WORKERS OVERALL ACROSS THE BOARD



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MOST ART MUSEUM WORKERS ARE CONSIDERING LEAVING THE FIELD ALTOGETHER

60% have considered leaving their museum workplace for another art museum.
68% have considered leaving the art museum field altogether.

Quitting Considerations and Motivators

Which of the following reasons made you consider leaving the art museum field? Select all that apply.

Top Motivators to Leave the Field

1	Pay is too low	68%
2	Burnout	54%
3	Lack of opportunities for growth in art museums	47%
4	Poor management in art museums	41%
5	Exciting opportunities in other fields	35%

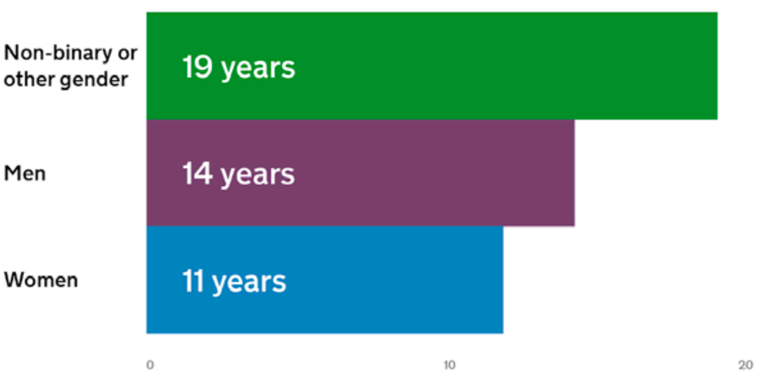
INADEQUATE PAY COMBINED WITH SLOW AND UNEVENLY DISTRIBUTED PROMOTIONS LIMIT WORKER OPTIONS

Ability to Cover Basic Living Expenses

How well does your current compensation from the museum cover your living expenses (e.g., rent, utilities, food, childcare)?

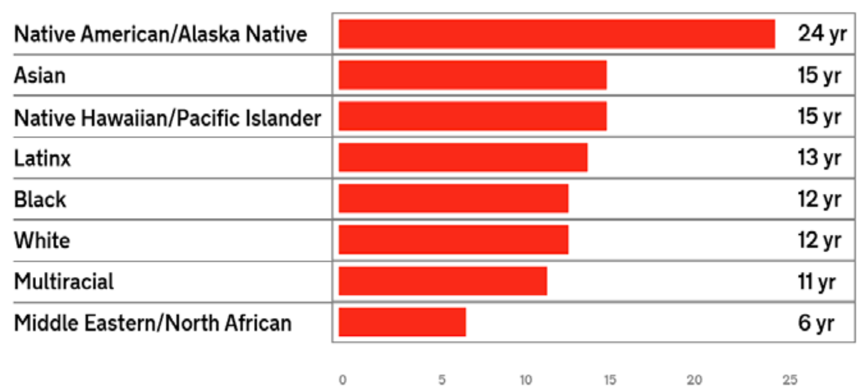
Years to Full Promotion, by Gender

Have you ever received any of the following combinations of promotions and pay increases while at your current museum? Select all that apply.



Years to Full Promotion, by Race and Ethnicity

Have you ever received any of the following combinations of promotions and pay increases while at your current museum? Select all that apply.



FINANCIAL CONTEXT: BUSINESS MODEL

Image courtesy of Collaboration, featuring Jessica Hudson in "Spider in the Attic," Chicago, IL. Photo credit: Saverio Truglia from SKETCHBOOK X

"We were planning our return during COVID and thought it would come back to what it was. It never will be back to what it was. If we know folks aren't coming back right away -- especially for new works -- how can we properly scale the operations and execution of them?" –

Performing Arts Organization Leader, Spring 2023

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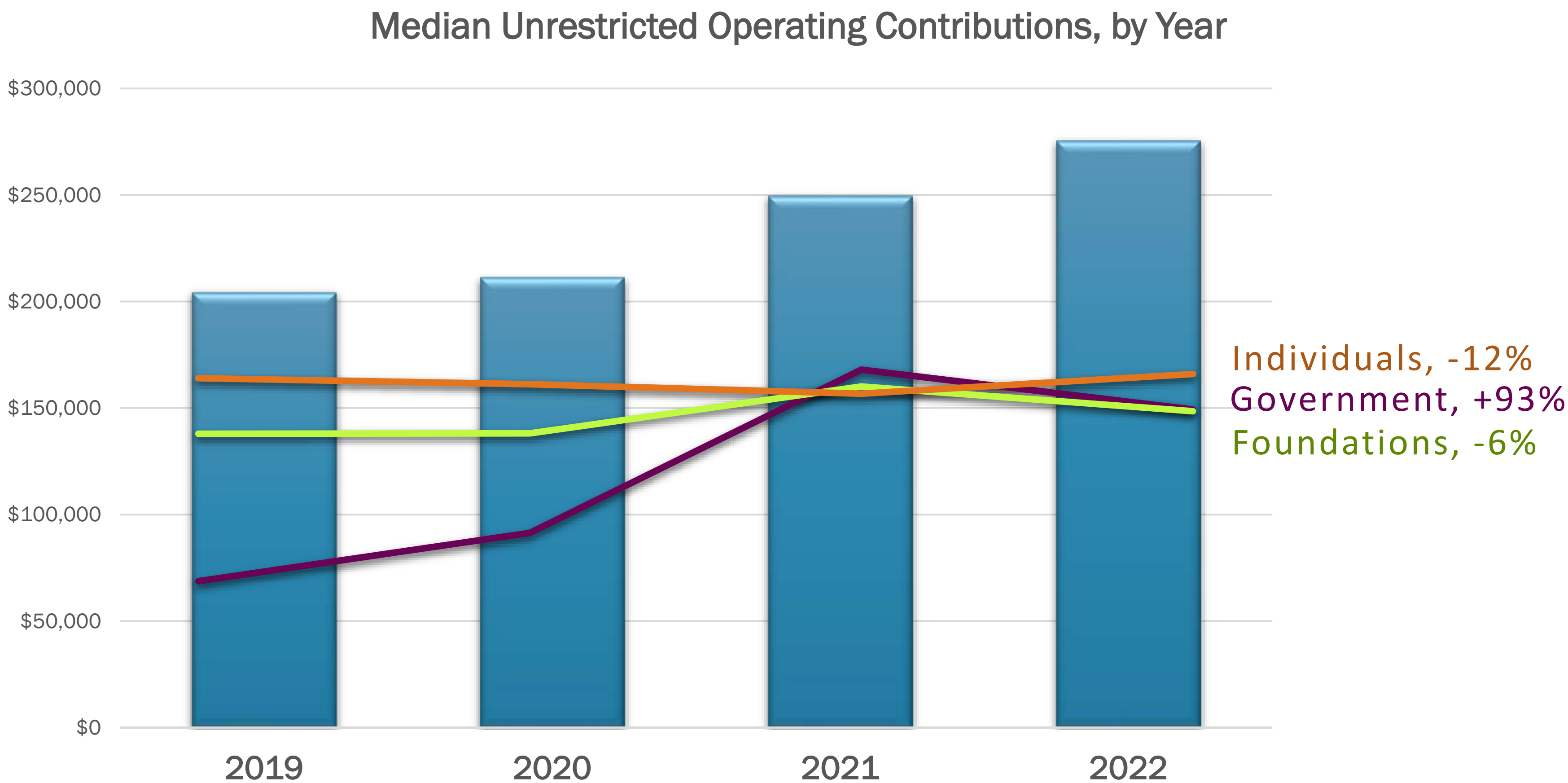
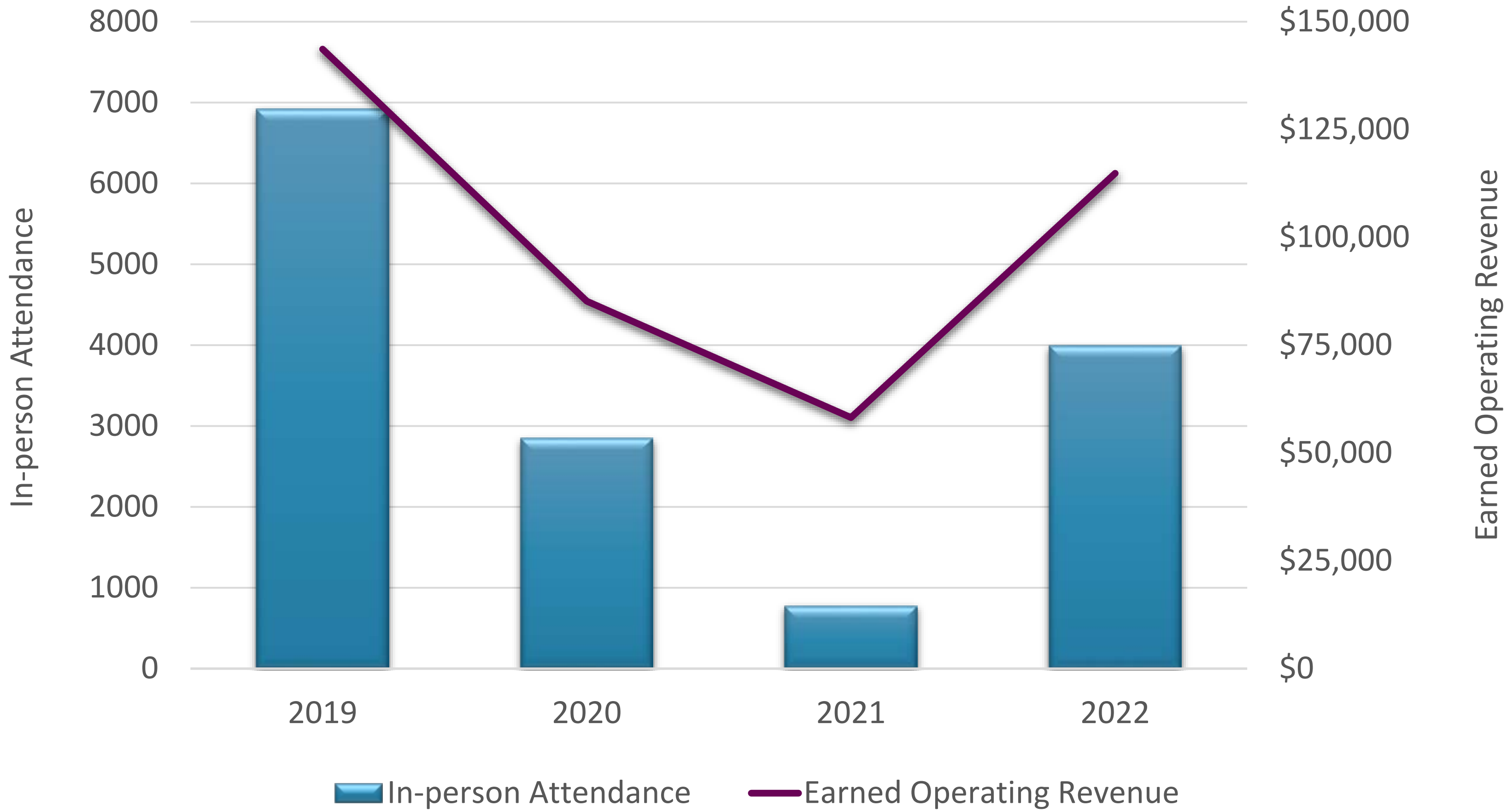


Weakness in core business model revenue started to materialize by FY22

FINANCIAL CONTEXT: BUSINESS MODEL



In FY22, the median organization reported **42% fewer in-person participants** and **a 30% inflation-adjusted decline in earned revenue compared to FY19**

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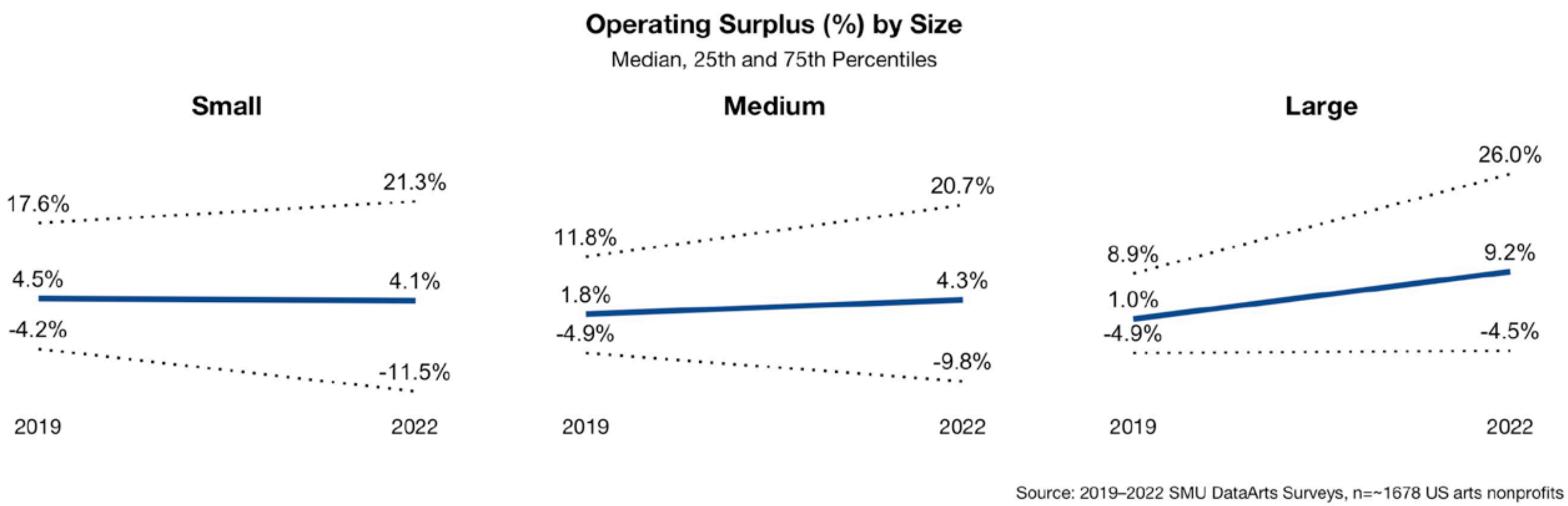
BUSINESS MODELS ARE STARTING TO SHOW CRACKS

Cost pressures are also starting to affect bottom lines as organizations adjust salaries, fill open positions and return to full programming schedules.

- Overall, expenses increased 37% in the most recent year at the median, even though costs are down 3% on an inflation-adjusted basis from FY19.
- People costs rose 30% for the median group from FY21-22 as organizations reinstated staff and raised salaries.

Still, personnel costs have not kept up with inflation and are down 11% since pre-pandemic, suggesting a continuing human capital crisis for many groups.

WHILE OPERATING SURPLUSES TENDED TO HOLD STEADY OR GROW IN FY22, MORE THAN 25% OF THE SECTOR IS NOW LOSING MONEY. THE GAP BETWEEN PROFITABLE AND UNPROFITABLE ORGANIZATIONS HAS GROWN AT EVERY BUDGET SIZE.



*Median total annual expenses by budget group, with rounding:
Small = $120,000; Medium = $715,000; Large = $6.5 million

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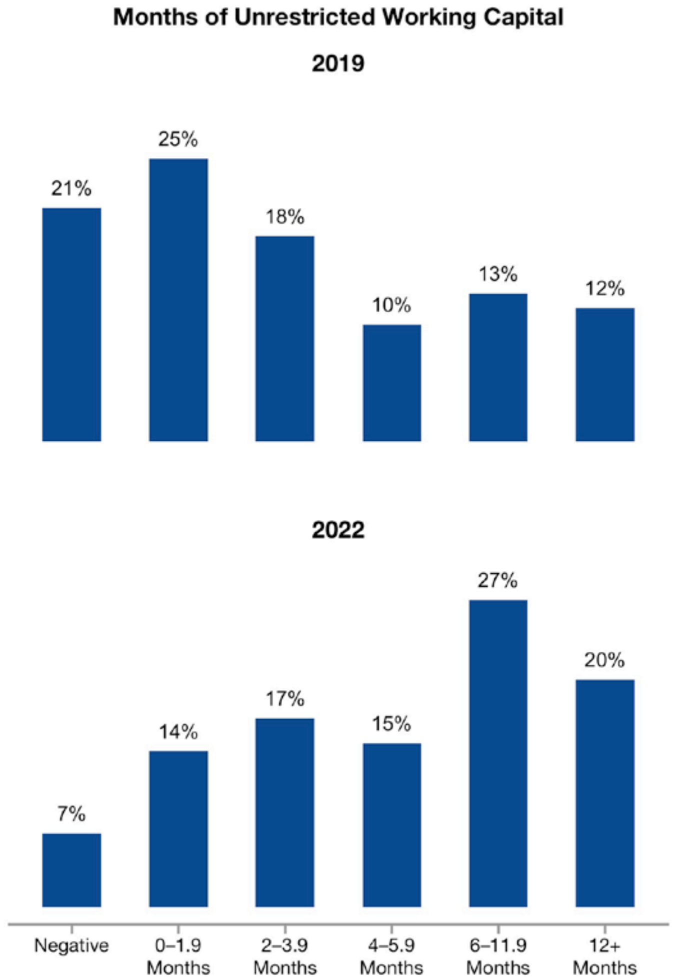
DESPITE RECENT BUSINESS CHALLENGES, WORKING CAPITAL REMAINS ELEVATED AT LEVELS NOT SEEN IN RECENT HISTORY. FAR FEWER GROUPS HAD LIMITED TO NO LIQUIDITY IN FY22 THAN IN FY19. YET, EMERGING DEFICITS ARE ALREADY CUTTING INTO CASH.



Source: 2019–2022 SMU DataArts Surveys, n=~854 US arts nonprofits

At FYE 2022, more than 45% reported over 6 months of WC. However, 20% remain quite weak, with <2 months.

BIPOC-SERVING GROUPS BENEFITTED FROM A SHIFT TOWARD EQUITY. WILL FAVORABLE TRENDS LAST?

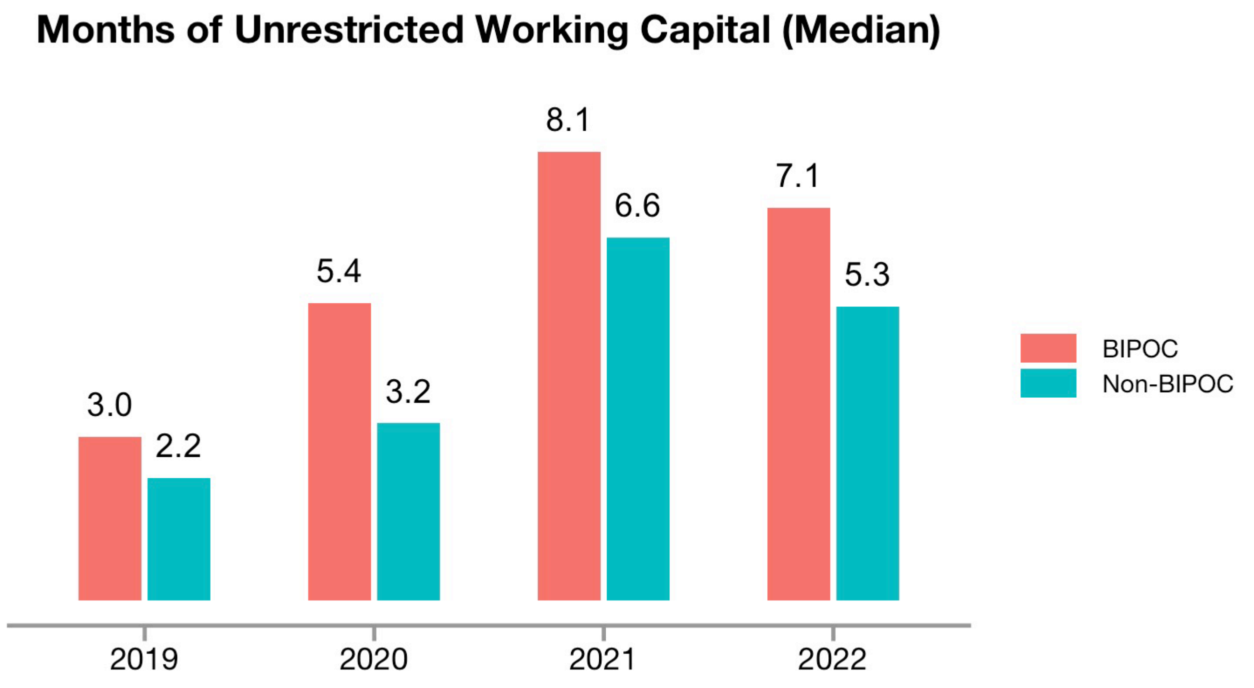
During and emerging from the pandemic, many organizations of color benefitted from a shift toward more equitable institutional funding Since 2019, median data shows:

- **Total unrestricted operating revenue** rose 43% (24% in real terms) vs.18% for non-BIPOC
- **Unrestricted contributions** increased 44% (25% in real terms) vs. 32% for non-BIPOC.
- **Unrestricted foundation** support rose 33% (15% in real terms) vs. 17% for non-BIPOC groups.
- **Individual support remains much weaker** for orgs of color.

BIPOC groups also increased costs faster, by investing in people: Real costs rose 11%, vs - 4% for non-BIPOC orgs over four years.

- And yet, the median BIPOC group in the data set is 30% smaller than the median non-BIPOC group!

BIPOC-SERVING GROUPS TEND TO BE MORE LIQUID AND PROFITABLE THAN NON-BIPOC ORGS.



Source: 2019–2022 SMU DataArts Surveys, n=~860 US arts nonprofits

Arts organizations of color tend to be smaller, so can take decisive action to contain costs and build savings even as they underinvest in infrastructure.

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BIPOC GROUPS ACHIEVE SOME FINANCIAL STABILITY AT GREAT COST

BIPOC groups have a strong track record of managing with limited resources and are well equipped to handle higher levels of funding.

However, adequate financial capital usually masks underinvestment in infrastructure and critical human capacities. Public policies limiting overhead coverage greatly exacerbate these challenges.

- Organizations of color rely on lean, underpaid staff, replicating historic injustices.
- Lower spending on marketing and fundraising capacities limits revenue growth potential.
- Volunteer labor and in-kind space are never "free": they take time to find and must be "made to work."
- Systems for data collection, analysis and reporting are inadequate, undermining organizations' fundraising efforts and fiscal management.

DISCUSSION

1. How has your state arts agency responded to emerging business model pressures?
2. What flexibility did you show during the pandemic that you can carry over into the future? OR: How can state arts agencies change how they operate to meet this moment?
3. How can government support influence and help democratize support for BIPOC groups, in a way that private philanthropy can't?

REFORMING OLD FUNDING PATTERNS

PRETTY BAD PRACTICE	BEST PRACTICE
"I am restricting my grant to just the program's direct activities and staff. Don't spend too much on overhead."	**Make unrestricted funding the default.** • Loosen restrictions on current grants. • Make new grants unrestricted. • Commit to multi-year GOS.
"Congrats on achieving surpluses. You don't need my money anymore."	**Encourage and reward surpluses.** • Don't penalize strength. Signal that surpluses are a sign of good management. • Help rebuild (or establish) reserves once a stable business model has been (re)established.
"I'd like to help you 'build' your institution. Then, you are on your own."	**Make long-term bets on grantee-defined plans that show pathways to sustainable change.** • Invest in skills and capacities that will lead to stronger strategic business plans • Support human capital gaps and savings, before program growth, facilities and endowments. • Be patient. Don't exit too quickly. • Accept setbacks and even failures as a part of the natural cycle of change.