Cultural Capital

*Investing in New York’s Economic and Social Health*

Produced by McKinsey & Company for the Alliance for the Arts

April 2002
AGENDA

• **Small bucks with a big bang** –  
  Public investment in arts and culture generates strong economic and social returns for New York City

• **Under-investing in New York City’s future** –  
  Despite attractive returns, public support for arts and culture has stagnated

• **Overcoming obstacles** –  
  To assure the continued subsistence of the arts in New York City requires action, involvement and funding
## INVESTING IN ARTS AND CULTURE GENERATES STRONG RETURNS

### Economic Impact

- Nonprofit cultural institutions create over $5.7 billion in economic benefits for New York City, and indirectly drives $8.8 billion in the commercial industries (e.g. Broadway, motion pictures, art galleries)
- Culture generates tax revenues which are more than twice the initial investment
- City funding for culture is instrumental in driving private funding leveraging more than five times of its amount in other contributions
- Annually, the nonprofit cultural industry brings at least a million tourists into the local economy

### Job Market

- In total, the cultural sector has created a total of 130,000 jobs in New York City
- About 50,000 jobs alone are created by the cultural nonprofit sector
- *Fortune* magazine named New York as the best city for business in 2000, citing its ability to attract businesses that depend upon “creative capital”
- Arts in the City help businesses retain employees, while attracting a labor pool of creative talent to New York City

### Benefits to New Yorkers

- Enthusiastic participation among New Yorkers
  - 49% went to musical performances, 43% to art exhibitions and museums, 36% to the theater
  - 80% of New Yorkers wish they had engaged in arts and culture even more in their earlier years
- Other popular cultural activities among survey respondents incl. volunteering (44%) and taking classes (40%) on a regular basis
- Arts enhance the educational experience of students, fostering creativity, student engagement and social interaction

### Community Stabilization

- Culture has the power to revitalize entire neighborhoods, e.g.
  - In Newark, the NJPAC has created over $12.3 million in annual local spending besides tax returns and new economic activity.
  - In Southwark, London, the building of the Globe Theatre and the Tate Modern triggered a steep increase in local property value, commercial development and job opportunities.
- Arts help the community of New Yorkers to heal from the tragedy of 9/11 (e.g., exhibitions, plays, memorials)

Source: Alliance for the Arts, Fordham Institute profiles, New York Foundation for the Arts, team analysis
NONPROFIT ARTS AND CULTURE GENERATE $5.7 BILLION FOR NEW YORK CITY…

Nonprofit Arts & Culture Economic Impact (2000)

$ billions

Nonprofit organization spending
- Admissions & other earned income
- Contributions
- Organizational expenditures

Nonprofit-related “ripple effect”
- Household spending
- Rents and salaries paid by suppliers
- Other ripples

Tourist-related spending
- Revenues from:
  - Restaurants
  - Hotel
  - Shopping
  - Travel
- Economic ripple effect from tourist related spending

Total Nonprofit Economic Impact

5.7

1.0

2.5

2.2

Very conservative – based on 1 million tourists coming solely for nonprofit arts (out of over 20 million leisure tourists)

Sources: Arts Research Center/Alliance for the Arts, Who Pays for the Arts? (2001), “The Economic Impact of the Arts on New York City and New York State” (1997), and “You Gotta Have Art!” (July 1997)
...WHICH DRIVE FOR-PROFIT RETURNS RESULTING IN A TOTAL OF $14.5 BILLION IN ECONOMIC IMPACT

Combined Arts & Culture Economic Impact (2000)

$ billions

For-profit revenues

- Broadway Industry
- Broadway Visitor Spending
- Commercial Art Galleries
- Auction Houses
- Movie and Television Production

5.7

14.5

Total Nonprofit Economic Impact

Combined Economic Impact for Culture & Arts

Sources: Arts Research Center/Alliance for the Arts, Who Pays for the Arts? (2001), “The Economic Impact of the Arts on New York City and New York State” (1997), and “You Gotta Have Art!” (July 1997)
TAX RECEIPTS ALONE ACCOUNT FOR AN ECONOMIC RETURN OF MORE THAN TWICE THE INVESTMENT

Cultural Return on Investment (1995)

\[
\begin{array}{|c|}
\hline
\text{NYC funding for the Arts} & \text{Arts-related tax receipts*} \\
91 & 221 \\
\hline
\end{array}
\]

- Return rate of 240%
- For-profit: 151
- Non-profit: 70

* Including taxes on direct expenditures of nonprofit cultural institutions, on their employees' spending, and on visitors outlay; analysis based on tax percentage of spending generated by the Arts in New York City totaling an estimated $13.4 billion in 1995.

Source: Alliance for the Arts, “You Gotta Have Art!” – Profile of a Great Investment for New York State, July 1997
CITY FUNDING IS INSTRUMENTAL IN DRIVING PRIVATE CONTRIBUTIONS

City Funding (1999) $ millions

- Total NYC funding: 112.5

Private & Other Contributions (1999) $ millions

- Individual contributions: 242
- Foundations: 165
- Corporations: 81
- Other: 81
- Total: 568

Case example: NY Hall of Science (Queens), 2000

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NYC Funding announced: $1.7m</td>
<td>Federal funding based on cost share percentage of city funding released: $1.1m</td>
<td>Gala raises unrestricted funding from private contributors: $0.5m</td>
<td>Accumulated private sector program-specific funding: $2.3m</td>
<td>Final program determined based on final budget: $5.6m + $2.3m</td>
</tr>
</tbody>
</table>

2. New York Hall of Science: cash operating budget excluding, “in-kind” support (e.g. Energy, Free Advertising)
3. Actual budget with Earned Income of $2.3 million for a total of $8 million

Sources: Alliance for the Arts, *Who Pays for the Arts?* (2001), press clippings, New York Hall of Science
CULTURE AND ARTS PROVIDE JOBS FOR MANY PEOPLE IN NEW YORK CITY

### Nonprofit Arts & Culture Employment (2001)

<table>
<thead>
<tr>
<th>Employees</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct organization employees¹</td>
<td>18,100</td>
</tr>
<tr>
<td>Employees of Suppliers to Arts &amp; Culture²</td>
<td>22,800</td>
</tr>
<tr>
<td>Ancillary Employment (Visitors)³</td>
<td>13,000</td>
</tr>
<tr>
<td>Total Nonprofit Employees</td>
<td>54,000</td>
</tr>
</tbody>
</table>

1. Assumes an average compensation of $37,318. Average compensation is based on the midpoint between the average from a 1993 study corrected for inflation ($35,000) and weighed compensation of a sample of 18 organizations from the current database representing 50% of total compensation ($36,656).

2. Based on estimate of suppliers to Non-profit Culture or Arts organizations in New York City.

3. Based on employment generated per dollar of visitor spending from a 2001 Broadway Study.

“The Bronx Zoo is the biggest minority youth employer in the Bronx.”

Source: Alliance for the Arts; The Bronx Zoo; Team Analysis; Press Clippings
BENEFITS TO NEW YORKERS

Survey questions (2001)*

“Do you think that arts and cultural offerings are extremely or very important community attributes?”

Yes 92%

“How important is doing creative work in your life?”

Very/fairly important 75%

“Do you sometimes wish you had more chance to do creative work when you were young?”

Yes 80%

* Sample of 805 residents of the 5 New York boroughs, using random digit dialing (margin of error for the study ±3.5%)
Source: Survey conducted by the Fordham Institute for Innovation in Social Policy
CASE STUDY:
REVITALIZING NEWARK THROUGH THE ARTS

Bringing the arts to Newark, New Jersey

• The New Jersey Performing Arts Center (NJPAC) quantified economic and financial impact to Newark and the State prior to building the Center
• As the center stage for the State’s best performing arts organizations, NJPAC looked to
  – Revitalize the State’s largest city
  – Provide Newark with a statement of reemergence
  – Present a business investment with concrete financial benefits in new spending and economic activity, jobs and tax revenues

Creating new local spending

• Audiences attending NJPAC spend additional money amounting to a total of $12.3 million

Generating significant tax returns

<table>
<thead>
<tr>
<th>Property and other Taxes, 2003</th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>NJPAC</td>
<td>1.8</td>
</tr>
<tr>
<td>NJPAC + Cultural district</td>
<td>3.4</td>
</tr>
</tbody>
</table>

- On top of annual tax returns, the taxes stemming from construction amounted to approximately $20 million

Triggering new economic activity

• Statewide, the new local spending was estimated to produce an annual increase in economic activity of $35 million, with $28 million flowing through the local Newark economy
• The cultural development generated over 470 jobs in New Jersey, with 380 of those available in Newark
• Total economic impact from 1992-2000 from the NJPAC development was estimated at over $1 billion

Source: NJPAC Economic Impact Analysis (conducted by Hamilton, Rabinovitz & Alschuler Inc.)
CASE STUDY: REVITALIZING SOUTHWARK THROUGH THE ARTS

Bringing the Arts to Southwark, London

- Southwark was one of the poorest boroughs in London in the early 1990s, when the Tate was awarded £60 million from the National Heritage Lottery Fund to build Tate Modern
- **Tate Modern** started construction in the old power station on London’s impoverished Southbank in 1996
- The London **Globe Theatre** and exhibition space opened its doors with *Henry V* in 1997
- Tate Modern opened in May 1999

**Increasing local property value**

<table>
<thead>
<tr>
<th>Indexed prices</th>
<th>CAGR '95–97</th>
<th>CAGR '97–00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwark</td>
<td>10.5%</td>
<td>20.4%</td>
</tr>
<tr>
<td>London</td>
<td>9.8%</td>
<td>18.2%</td>
</tr>
</tbody>
</table>

“Call it Southbank … or Southwark … this is perhaps London’s most exciting quarter.” — *London Property Guide, 2001*

**Increasing commercial development**

<table>
<thead>
<tr>
<th>Net number of VAT registered businesses</th>
<th>Indexed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Southwark</strong></td>
<td>130</td>
</tr>
<tr>
<td><strong>London</strong></td>
<td>150</td>
</tr>
</tbody>
</table>

**Increasing job opportunities**

- The number of hotel and catering businesses in Southwark increased by 23% from 1997-2000
- **Tate Modern** directly created 467 jobs, with 1/3 employees living in Southwark
- 3,000 jobs were created as part of revitalization

Source: HM Land Registry, DETR, ONS, McKinsey team analysis
• **Small bucks with a big bang** –
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• **Under-investing in New York City’s future** –
  Despite attractive returns, public support for arts and culture has stagnated

• **Overcoming obstacles** –
  To assure the continued subsistence of the arts in New York City requires action, involvement and funding.
DEPARTMENT OF CULTURAL AFFAIRS’ SHARE REPRESENTS LESS THAN HALF A PERCENT OF THE TOTAL CITY BUDGET

DCA share of New York City’s adopted budget (1976-2002)

Percent of total City Budget

Source: Alliance for the Arts; Department of Cultural Affairs’ Expense Budget History (1976-2002)
HISTORICALLY, THE CITY COUNCIL HAS PLAYED A SIGNIFICANT ROLE IN BRINGING UP CITY FUNDING FOR THE ARTS

Department of Cultural Affairs: Executive vs. Adopted Budget
$ millions, adjusted for inflation

Source: Alliance for the Arts; Department of Cultural Affairs’ Expense Budget History (1976-2002)
WHILE MANHATTAN RECEIVES THE MOST IN CITY FUNDING ...

Total New York City Funding by Borough, 1999*

<table>
<thead>
<tr>
<th>Borough</th>
<th>1999 Funding (in $ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staten Island</td>
<td>$6.1</td>
</tr>
<tr>
<td>Queens</td>
<td>$13.5</td>
</tr>
<tr>
<td>Bronx</td>
<td>$18.4</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>$22.9</td>
</tr>
<tr>
<td>Manhattan</td>
<td>$54.6</td>
</tr>
</tbody>
</table>

# orgs = 24

* Sample of 576 cultural organizations in New York City
Source: Alliance for the Arts, *Who Pays for the Arts? (2001)*, team analysis
THE AVERAGE AND MEDIAN FUNDING PER CULTURAL INSTITUTION IS LOWEST IN MANHATTAN

Average New York City Funding per Cultural Institution by Borough, 1999*

* Sample of 576 cultural organizations in New York City
Source: Alliance for the Arts, Who Pays for the Arts? (2001), team analysis
PROPORTIONALY MANHATTAN RECEIVES THE LOWEST SHARE AND IS LEAST DEPENDENT ON CITY FUNDING

Income as Share of Total Funding by Borough, 1999

Percent

- Government funding
  - City
  - State
  - Federal

- Private contributions

- Earned income

* Sample of 576 cultural organizations in New York City
Source: Alliance for the Arts, Who Pays for the Arts? (2001), team analysis
THOUGH SMALL ORGANIZATIONS ARE MOST DEPENDENT ON PUBLIC FUNDING, THEY HAVE EXPERIENCED BIGGEST CUTS

Dependence on Government Funding
(as % annual operating budget, 1999)

<table>
<thead>
<tr>
<th>Category</th>
<th>Dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large</td>
<td>8.2</td>
</tr>
<tr>
<td>Large ($1-$10m)</td>
<td>18.1</td>
</tr>
<tr>
<td>Medium ($100,000-$1m)</td>
<td>19.4</td>
</tr>
<tr>
<td>Small (&lt;$100,000)</td>
<td></td>
</tr>
</tbody>
</table>

Change in Government Funding
(as % change, 1995-1999)

<table>
<thead>
<tr>
<th>Category</th>
<th>Change in Gov't Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large</td>
<td>27.6</td>
</tr>
<tr>
<td>Large ($1-$10m)</td>
<td>18.1</td>
</tr>
<tr>
<td>Medium ($100,000-$1m)</td>
<td>19.4</td>
</tr>
<tr>
<td>Small (&lt;$100,000)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Arts Research Center/Alliance for the Arts based on data from the New York City Department of Cultural Affairs
OVERALL GOVERNMENT FUNDING HAS DECREASED

Change in Government Funding, 1995-1999 (in percent)

Source: Arts Research Center/Alliance for the Arts based on data from the New York City Department of Cultural Affairs

- City funding was generally decreased across the spectrum of arts organizations, with most severe cuts experienced by smaller organizations
- Large organizations, with annual budgets between $1 - $10 million, profited by an increase in state funding of more than 50%
- The greatest percentage loss in government funding was in federal support, with nearly 80% cuts on small organizations
IN THIS GROWTH PERIOD, INCOME OF SMALL INSTITUTIONS DECREASED

Income Change by Budget Size, 1995-1999 (in percent)

<table>
<thead>
<tr>
<th>Budget Size</th>
<th>Earned</th>
<th>Private</th>
<th>Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large (&gt;$10 m)</td>
<td>29.8</td>
<td>22.7</td>
<td>23.6</td>
<td></td>
</tr>
<tr>
<td>Large ($1 – 10 m)</td>
<td>30.9</td>
<td>16.2</td>
<td>18.2</td>
<td></td>
</tr>
<tr>
<td>Medium ($100,000 – 1 m)</td>
<td>22.4</td>
<td>12.9</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>Small (&lt;$100,000)</td>
<td>3.4</td>
<td>-12.2</td>
<td>-22.6</td>
<td>-12.1</td>
</tr>
</tbody>
</table>

- Large organizations, with annual budgets exceeding $1 million, have experienced substantial growth in earned and private incomes.
- Smaller organizations have been hit not only by large government cuts but also by a decrease in private sponsorship.

Source: Arts Research Center/Alliance for the Arts based on data from the New York City Department of Cultural Affairs
• Small bucks with a big bang –
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CHALLENGES FACING NYC’S CULTURAL SECTOR

Challenges – even in good times

- Most cultural institutions have no safety net to soften the blow from harder economic times (i.e., no endowments)
- Smaller institutions get less private funding, earn less and suffer steepest decline of government support (-22.6%)
- Increased rents in art zones put strain on cultural institutions

Economic downturn

- Tougher economic environment will decrease earned income (due to reduced spending on admissions, tickets, gift shops etc.)
- Slowdown is also likely to reduce amount of private contributions (individual and corporate)

Tragedy of September 11th

- September 11th has put strains on cultural institutions which still have not been recovered
- Tourism decreased as a direct result of 9/11
- September 11th has diverted funding away from the arts, including stagnation of giving to endowments
- New Yorkers' dependence on the Arts for healing more important than ever

Implications of accumulated challenges

- Programs (e.g., education, outreach) will be cut back to compensate for the loss of earned income, private giving, and government funding
- Creative pipeline critical to media and related industries is endangered and consequently jeopardizes economic returns
- From a long-term perspective, closures result in higher expenditures from significant renewed start-up costs vs. maintaining the organizations

Source: team analysis
NONPROFITS UNPREPARED FOR LEAN TIMES

Endowments of Nonprofit Theaters
as % annual company budget, 2000

Number of Theaters

- The majority of nonprofit theaters have insufficient endowments, typically amounting to less than 50% of their annual budgets.
- Without a net in place to weather worse economic environments, nonprofit organizations are immediately at risk if income decreases (both from earned and unearned sources).

SMALL COMPANIES SQUEEZED BY HIGH RENTS

Commercial rents in outer-borough art neighborhoods, 2000-2001

Price per square foot

<table>
<thead>
<tr>
<th>Location</th>
<th>March 2000</th>
<th>March 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.I. City (raw space)</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>L.I. City (class B space)</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>BAM area</td>
<td>13.50</td>
<td>25</td>
</tr>
<tr>
<td>Williamsburg (factory space)</td>
<td>11</td>
<td>21.50</td>
</tr>
<tr>
<td>Bronx (HUB on side street)</td>
<td>11</td>
<td>19</td>
</tr>
</tbody>
</table>

- Arts-oriented districts such as Chelsea, Brooklyn’s Fort Greene and Queens’ Long Island City rank among the neighborhoods that have seen significant rent increases.
- Rents climbed more rapidly in the city’s arts hot spots than almost anywhere else in the five boroughs.
- Between 1996 and 2000, rents increased three times as fast in Chelsea (262%) as in the areas surrounding Grand Central Station and City Hall.

Source: New York Foundation for the Arts, Center for an Urban Future
INITIAL INDICATIONS OF IMPACT OF ECONOMIC DOWNTURN AND OF SEPTEMBER 11th

CASE STUDY: THE MET

NYC Tourism and transportation losses*

$35.0 billion

~$5 billion lost in 12 months after attack

High value international traffic down 25%

Metropolitan Museum Losses in Admissions Revenue

Sept.-Dec 2000

$4.1m

Sept.-Dec 2001

$2.9 m

Revenue decrease of 28%

$1.1m

* Estimates

Source: New York City Partnership: Economic Impact Analysis of the September 11 Attack on New York City; The Metropolitan Museum
### OVERCOMING THE OBSTACLES

<table>
<thead>
<tr>
<th>Economic Impact</th>
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</thead>
</table>
| Maintain funding at current levels  
(Proposed budget cuts presently at $19 million which represents 0.05% of the total city budget) |
| Arts are an investment not an expenditure  
Economic rationale demonstrates that investing in the Arts results in significant returns and money is well spent (driving $14.5 billion into New York City) |

<table>
<thead>
<tr>
<th>Job Market</th>
</tr>
</thead>
</table>
| Promote the artist in the workforce  
Broaden recognition of the positive value of employing artists |
| Attract artists to your local constituency  
Promote your community to creative talent in order to create a more diverse labor pool |

<table>
<thead>
<tr>
<th>Benefits to New Yorkers</th>
</tr>
</thead>
</table>
| Expand Arts in education program  
Support further growth and integration of Arts and Education across New York City Boroughs |
| Raise awareness  
Promote available Culture & Art resources that are already in place |

<table>
<thead>
<tr>
<th>Community Stabilization</th>
</tr>
</thead>
</table>
| Promote the Arts to your community  
Encourage volunteering and participation in local the art scene |
| Protect artist live-work space  
Create conditions for arts and culture to flourish, with public and private support |

Source: team analysis