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

Cultural industry is a core asset to New York City

Benefits to New Yorkers

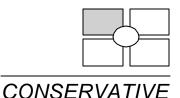
- Enthusiastic participation among New Yorkers
 - 49% went to musical performances, 43% to art exhibitions and museums, 36% to the theater
 - 80% of New Yorkers wish they had engaged in arts and culture even more in their earlier years
- Other popular cultural activities among survey correspondents incl. 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

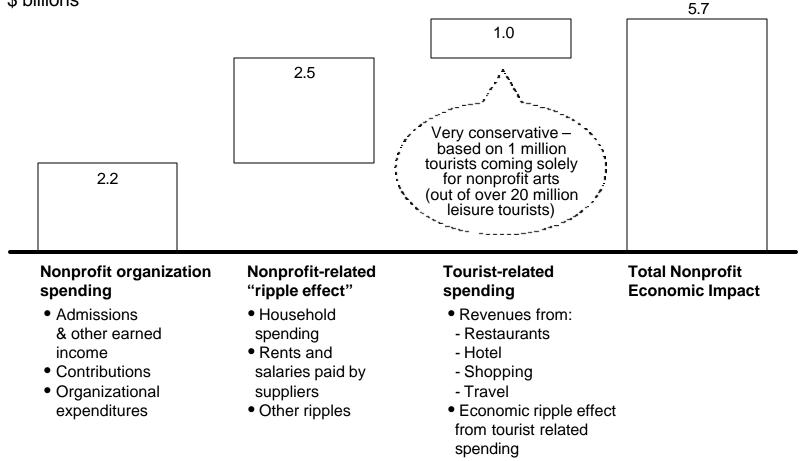
- Culture has the power to revitalize entire neighborhoods, e.g.
 - In Newark, the NJPAC has created over \$12.3 million in annual local spending besides tax returns and new economic activity.
 - In Southwark, London, the building of the Globe Theatre and the Tate Modern triggered a steep increase in 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...

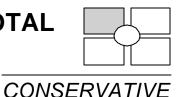


Nonprofit Arts & Culture Economic Impact (2000) \$ billions



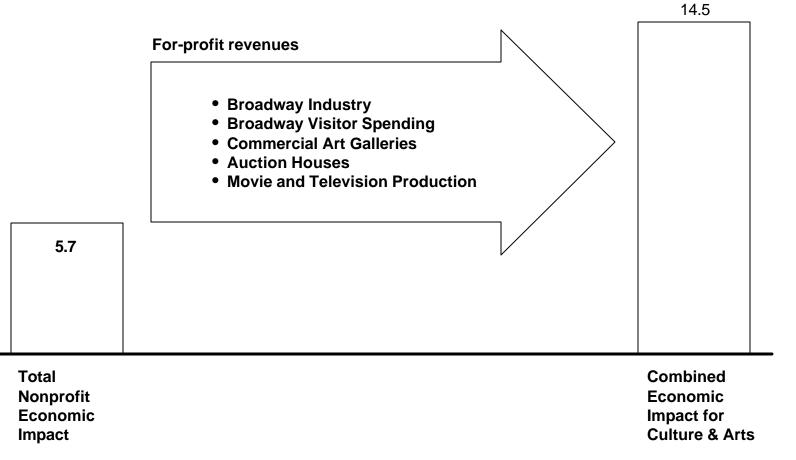
Sources: Arts Research Center/Alliance for the Arts, Who Pays for the Arts? (2001), "The Economic Impact of the Arts on New York City and New York State" (1997), and "You Gotta Have Art!" (July 1997)

...WHICH DRIVE FOR-PROFIT RETURNS RESULTING IN A TOTAL OF \$14.5 BILLION IN ECONOMIC IMPACT



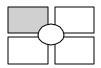
Combined Arts & Culture Economic Impact (2000)

\$ billions



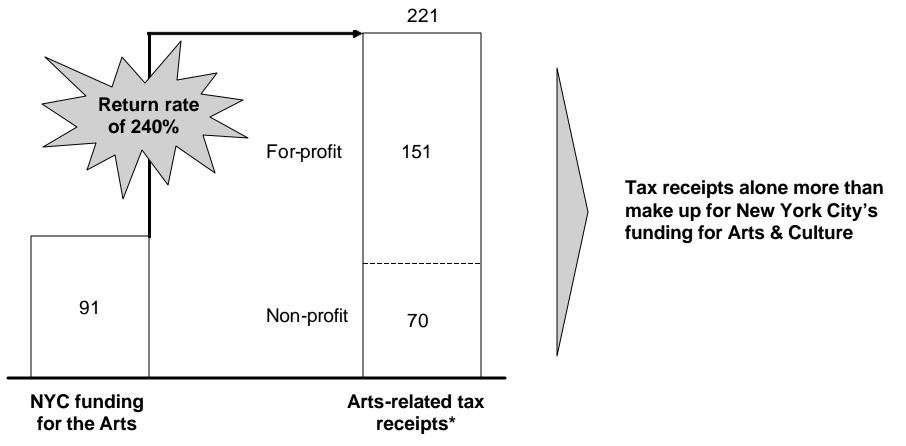
Sources: Arts Research Center/Alliance for the Arts, Who Pays for the Arts? (2001), "The Economic Impact of the Arts on New York City and New York State" (1997), and "You Gotta Have Art!" (July 1997)

TAX RECEIPTS ALONE ACCOUNT FOR AN ECONOMIC RETURN OF MORE THAN TWICE THE INVESTMENT



Cultural Return on Investment (1995)

\$ millions

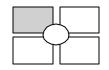


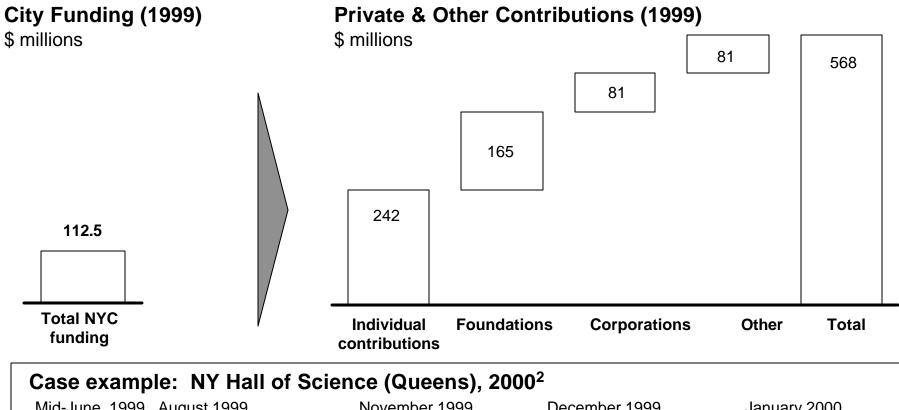
* Including taxes on direct expenditures of nonprofit cultural institutions, on their employees' spending, and on visitors outlay; analysis

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 CONTRIBUTIONS¹





Mid-June, 1999	August 1999	November 1999	December 1999	January 2000
NYC	Federal funding based on	Gala raises unrestricted	Accumulated private	Final program
Funding	cost share percentage of	funding from private	sector program-specific	determined based
announced:	city funding released:	contributors:	funding:	on final budget
\$1.7m	\$1.1m	\$0.5m	\$2.3m	\$ 5.6m + \$2.3m³

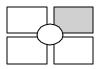
1. Sample of 576 cultural organizations in New York City, Who Pays for the Arts (2001)

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



Employees 54.000 13,000 "The Bronx Zoo is the biggest 22,800 minority youth employer in the Bronx." 18,100 **Total Nonprofit** Direct **Employees of** Ancillary organization Suppliers to Employment **Employees** employees¹ Arts & Culture² (Visitors)³

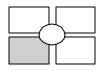
Nonprofit Arts & Culture Employment (2001)

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.

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?"



"How important is doing creative work in your life?"

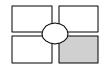


"Do you sometimes wish you had more chance to do creative work when you were young?"



* 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

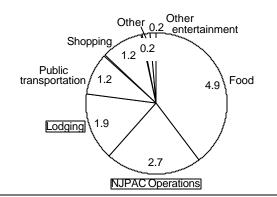


Bringing the arts to Newark, New Jersey

- 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**

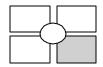


Generating significant tax returns Property and other Taxes, 2003 \$ million 3.4 1.8 3.4 NJPAC + Cultural district • On top of annual tax returns, the taxes stemming from construction amounted to approximately \$20 million

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

CASE STUDY: REVITALIZING SOUTHWARK THROUGH THE ARTS



Bringing the Arts to Southwark, London

CAGR CAGR Southwark was one of the poorest boroughs in **'95–97 '97–00** London in the early 1990s, when the Tate was 220 Southwark (10.5%) 20.4% awarded £60 million from the National Heritage Tate Modern London 9.8% 18.2% Lottery Fund to build Tate Modern construction 180 started • Tate Modern started construction in the old power "The new office in SE1 has become station on London's impoverished Southbank in 1996 Tate Modern Stirling Ackroyd's (property realtor) announced 140 busiest by a mile." • The London Globe Theatre and exhibition space Globe - Sunday Business, 2000 opened its doors with Henry V in 1997 opened • Tate Modern opened in May 1999 100 10000 10⁹¹ 1000 1000 1095 2000 Increasing commercial development Increasing job opportunities Net number of VAT registered businesses Indexed New businesses ... created jobs CAGR CAGR 130 **'97–00 '95–97** Southwark • 3,000 jobs were 5.8% 1.3% • The number of hotel created as part of and catering revitalization London 3.2% businesses in Southwark increased Tate Modern directly • "Call it Southbank ... or Southwark by 23% from 1997created 467 jobs, with 100 ... this is perhaps London's most 2000 exciting quarter." 1/3 employees living in - London Property Guide, 2001 Southwark 199⁰ 2000 , ૱^ઌ, ૱^ઌ, ૱^ઌ, ૱^ઌ, ૱^ઌ

Indexed prices

Increasing local property value

Source: HM Land Registry, DETR, ONS, McKinsey team analysis

AGENDA

Small bucks with a big bang –

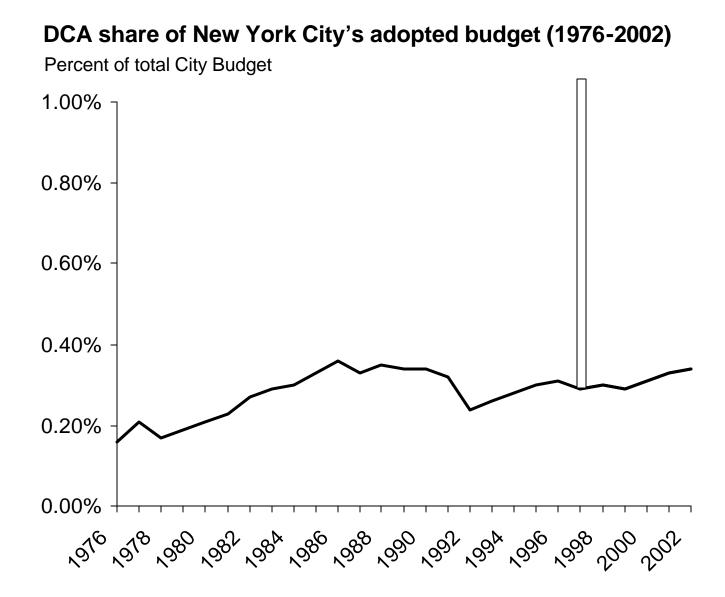
Public investment in arts and culture generates strong economic and social returns for New York City

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• Overcoming obstacles –

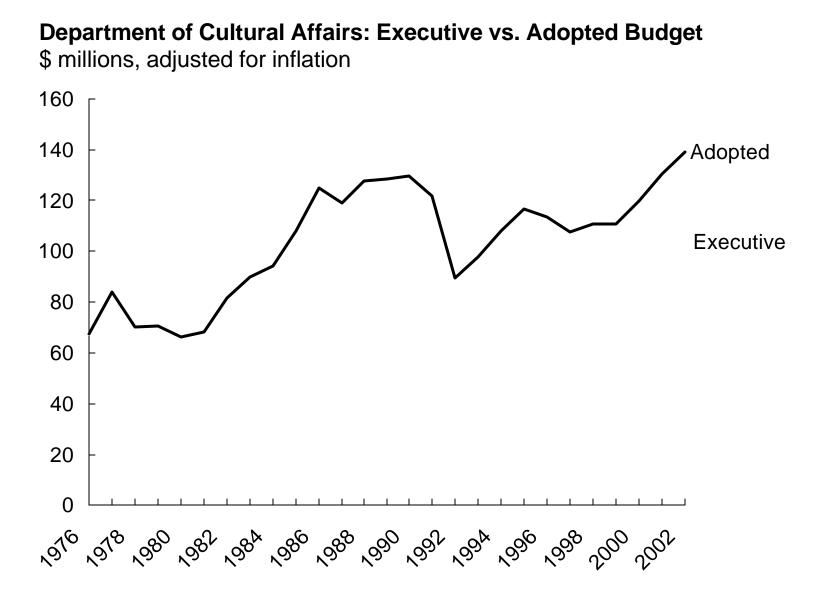
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DEPARTMENT OF CULTURAL AFFAIRS' SHARE REPRESENTS LESS THAN HALF A PERCENT OF THE TOTAL CITY BUDGET



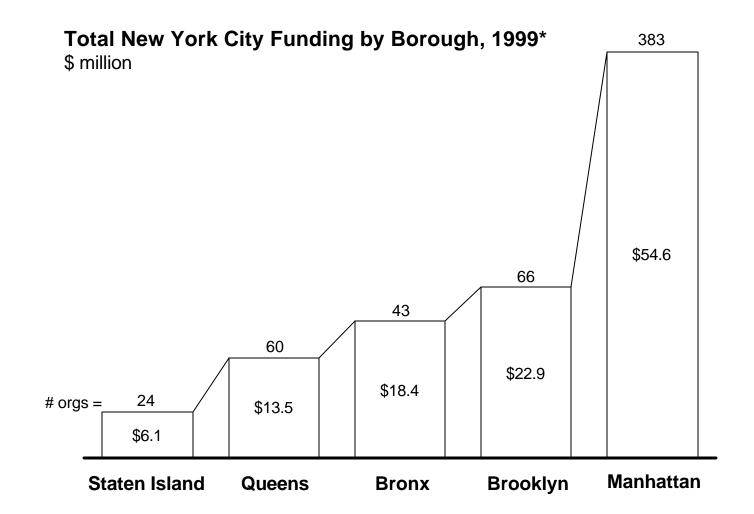
Source: Alliance for the Arts; Department of Cultural Affairs' Expense Budget History (1976-2002)

HISTORICALLY, THE CITY COUNCIL HAS PLAYED A SIGNIFICANT ROLE IN BRINGING UP CITY FUNDING FOR THE ARTS



Source: Alliance for the Arts; Department of Cultural Affairs' Expense Budget History (1976-2002)

WHILE MANHATTAN RECEIVES THE MOST IN CITY FUNDING ...



* 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

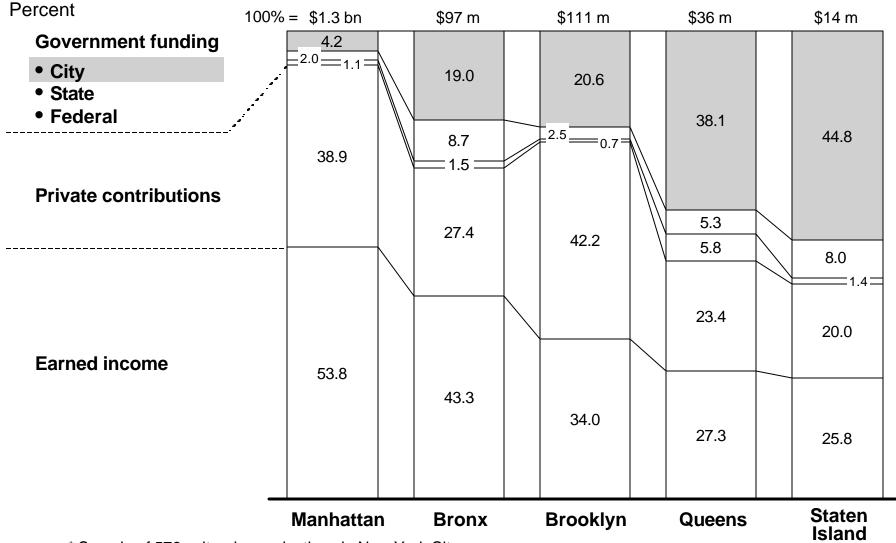
Average New York City Funding per Cultural Institution by Borough, 1999* \$ thousands



* Sample of 576 cultural organizations in New York City Source: Alliance for the Arts, *Who Pays for the Arts? (2001),* team analysis

PROPORTIONALLY MANHATTAN RECEIVES THE LOWEST SHARE AND IS LEAST DEPENDENT ON CITY FUNDING

Income as Share of Total Funding 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

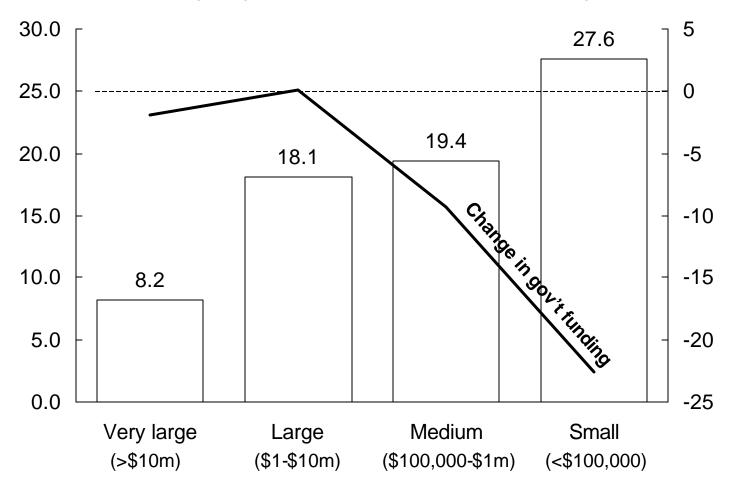
THOUGH SMALL ORGANIZATIONS ARE MOST DEPENDENT ON PUBLIC FUNDING, THEY HAVE EXPERIENCED BIGGEST CUTS

Dependence on Government Funding

(as % annual operating budget, 1999)

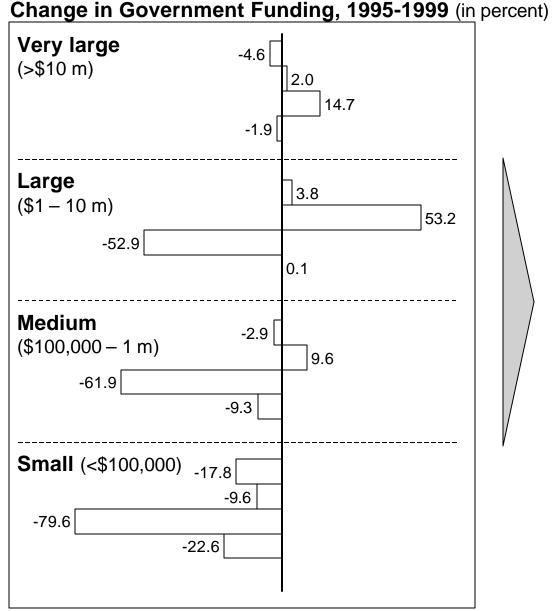
Change in Government Funding

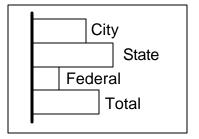
(as % change, 1995-1999)



Source: Arts Research Center/Alliance for the Arts based on data from the New York City Department of Cultural Affairs 17

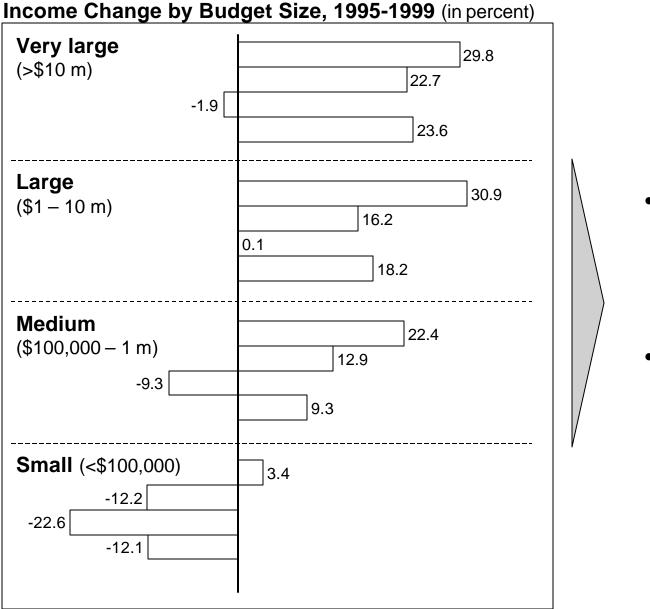
OVERALL GOVERNMENT FUNDING HAS DECREASED

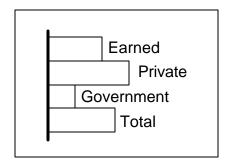




- City funding was generally decreased across the spectrum of arts organizations, with most severe cuts experienced by smaller organizations
- Large organizations, with annual budgets between \$1 - \$10 million, profited by an increase in state funding of more than 50%
- The greatest percentage loss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

IN THIS GROWTH PERIOD, INCOME OF SMALL INSTITUTIONS DECREASED





- 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

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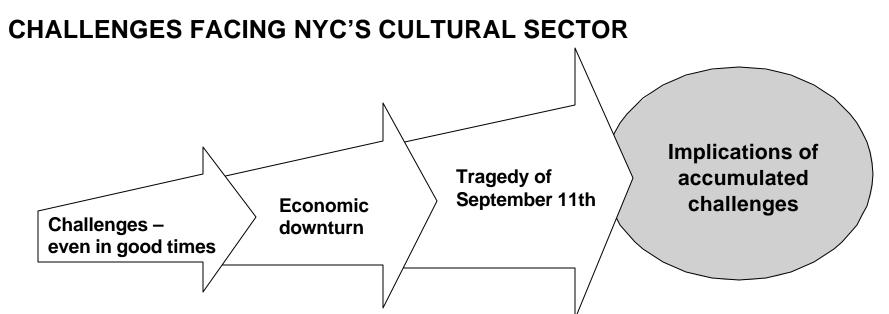
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Overcoming obstacles –

To assure the continued subsistence of the arts in New York City requires action, involvement and funding.



- 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

Tougher economic environment will decrease earned income (due to reduced spending on admissions, tickets,

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 Slowdown is also likely to reduce amount of private contributions (individual and corporate)

gift shops etc.)

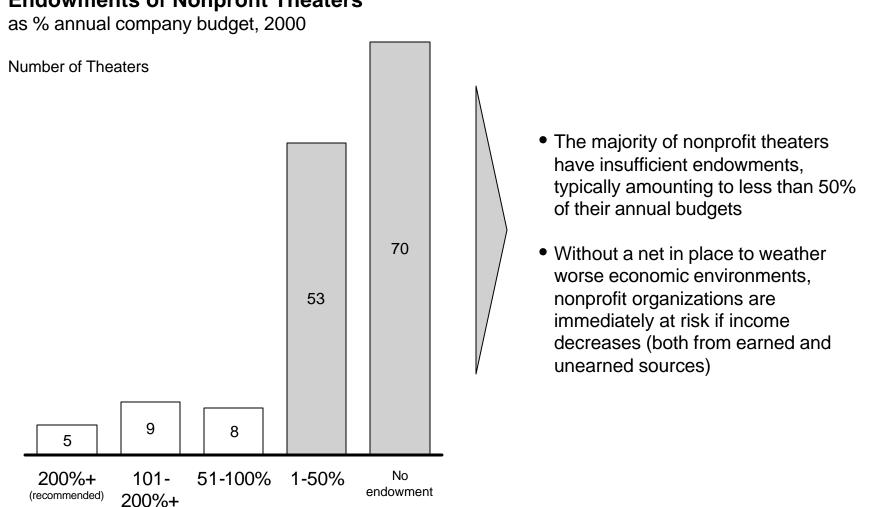
- September 11th has ¹ put strains on cultural institutions which still have not been recovered
- Tourism decreased as a direct result of 9/11
- September 11th has diverted funding away from the arts, including stagnation of giving to endowments
- New Yorkers' dependence on the Arts for healing more important than ever

- 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

NONPROFITS UNPREPARED FOR LEAN TIMES



CASE STUDY: THEATERS

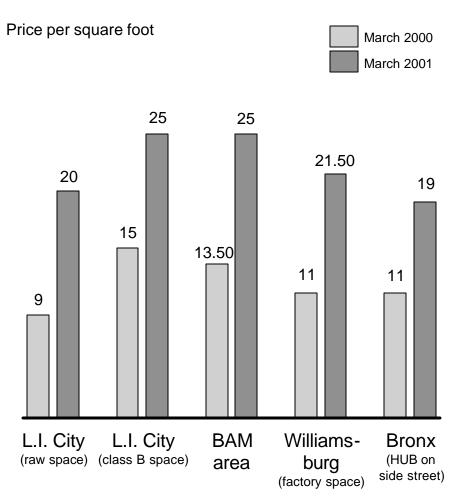


Endowments of Nonprofit Theaters

Source: "Theatre Facts 2000", Theatre Communications Group 2001

SMALL COMPANIES SQUEEZED BY HIGH RENTS

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



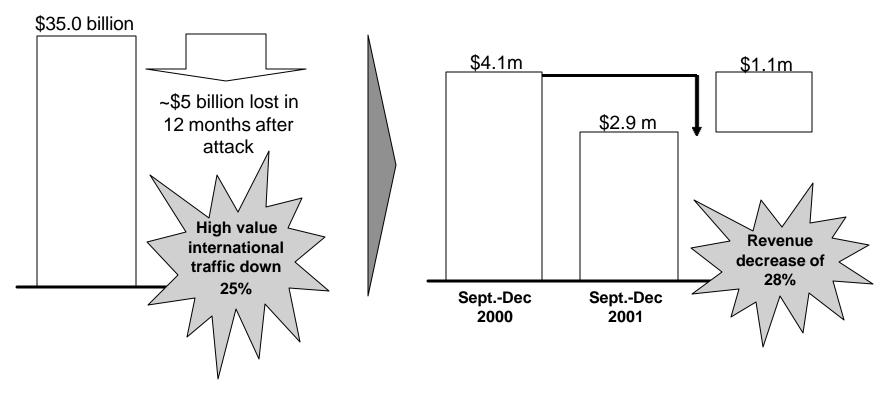
- Arts-oriented districts such as Chelsea, Brooklyn's Fort Greene and Queens' Long Island City rank among the neighborhoods that have seen significant rent increases
- Rents climbed more rapidly in the city's arts hot spots than almost anywhere else in the five boroughs
- Between 1996 and 2000, rents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



INITIAL INDICATIONS OF IMPACT OF ECONOMIC DOWNTURN

NYC Tourism and transportation losses*

Metropolitan Museum Losses in Admissions Revenue



* Estimates

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

OVERCOMING THE OBSTACLES

Economic Impact

- 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)

Benefits to New Yorkers

Job Market

- 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

Supporting your investment in the cultural industry

Community Stabilization

• 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

• 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