

Cultural Capital

Investing in New York's Economic and Social Health

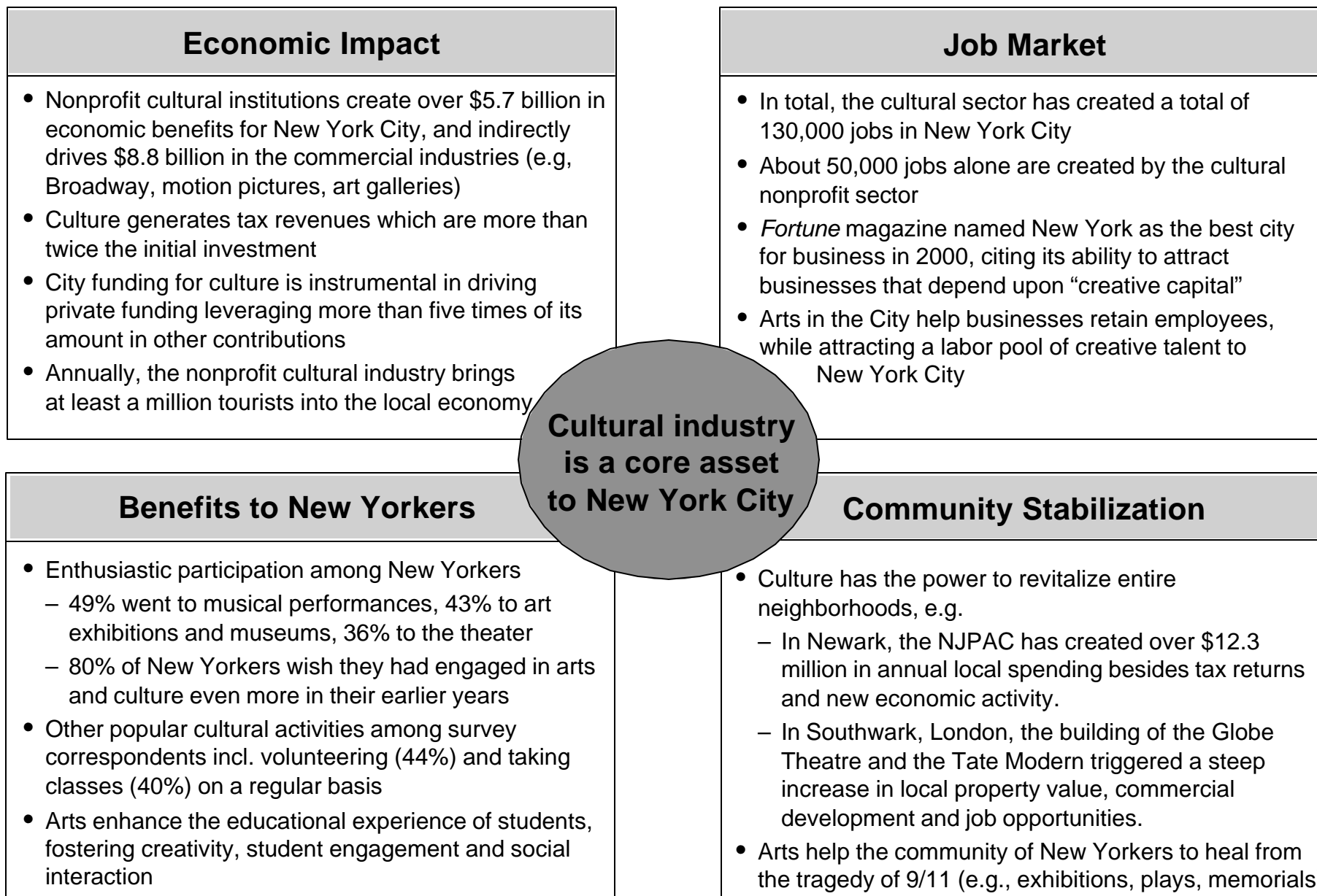
Produced by McKinsey & Company for the
Alliance for the Arts

April 2002

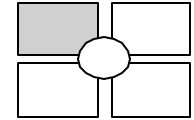
AGENDA

- **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



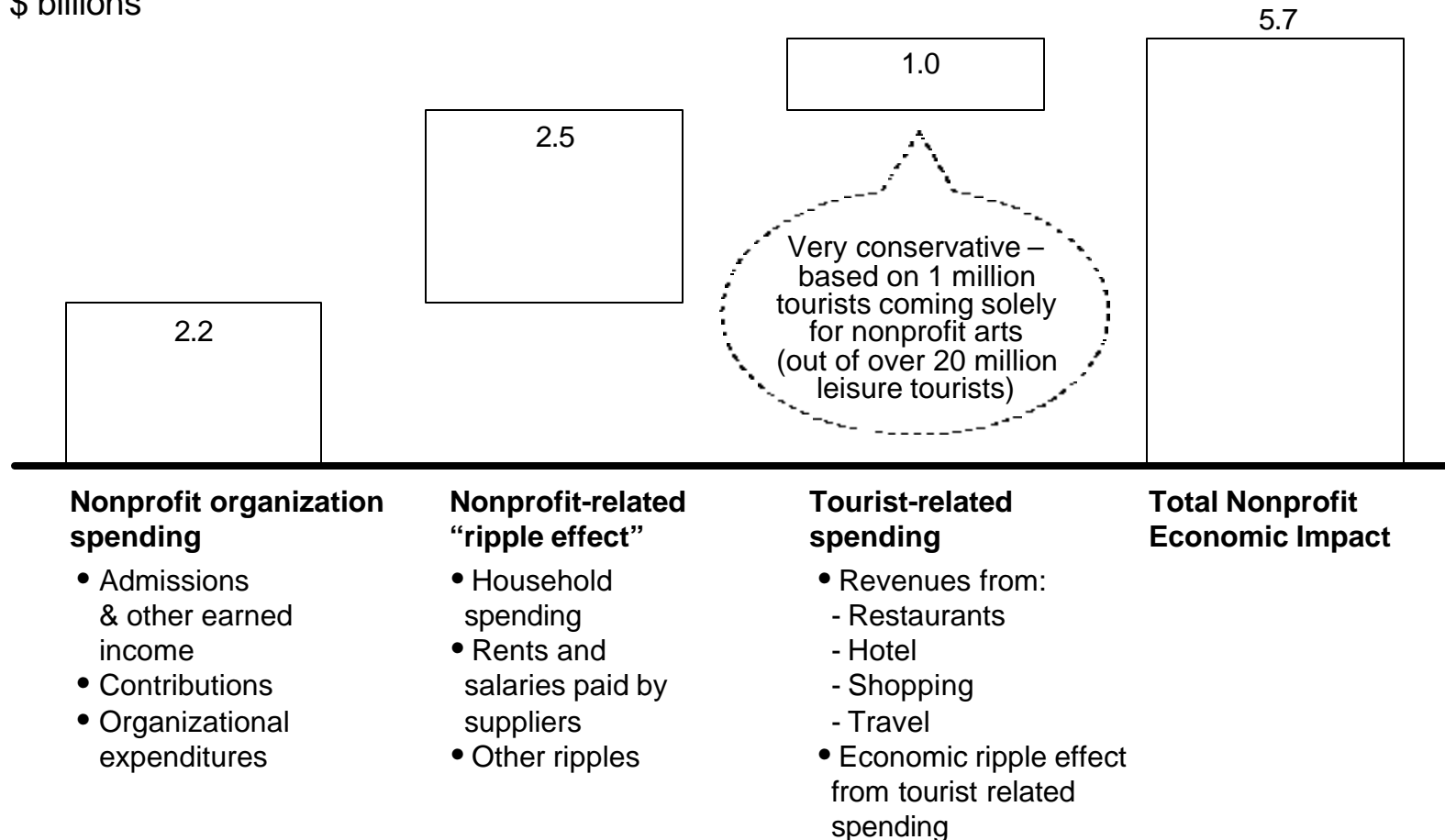
NONPROFIT ARTS AND CULTURE GENERATE \$5.7 BILLION FOR NEW YORK CITY...



CONSERVATIVE

Nonprofit Arts & Culture Economic Impact (2000)

\$ billions



Nonprofit organization spending

- Admissions & other earned income
- Contributions
- Organizational expenditures

Nonprofit-related "ripple effect"

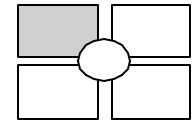
- Household spending
- Rents and salaries paid by suppliers
- Other ripples

Tourist-related spending

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

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)

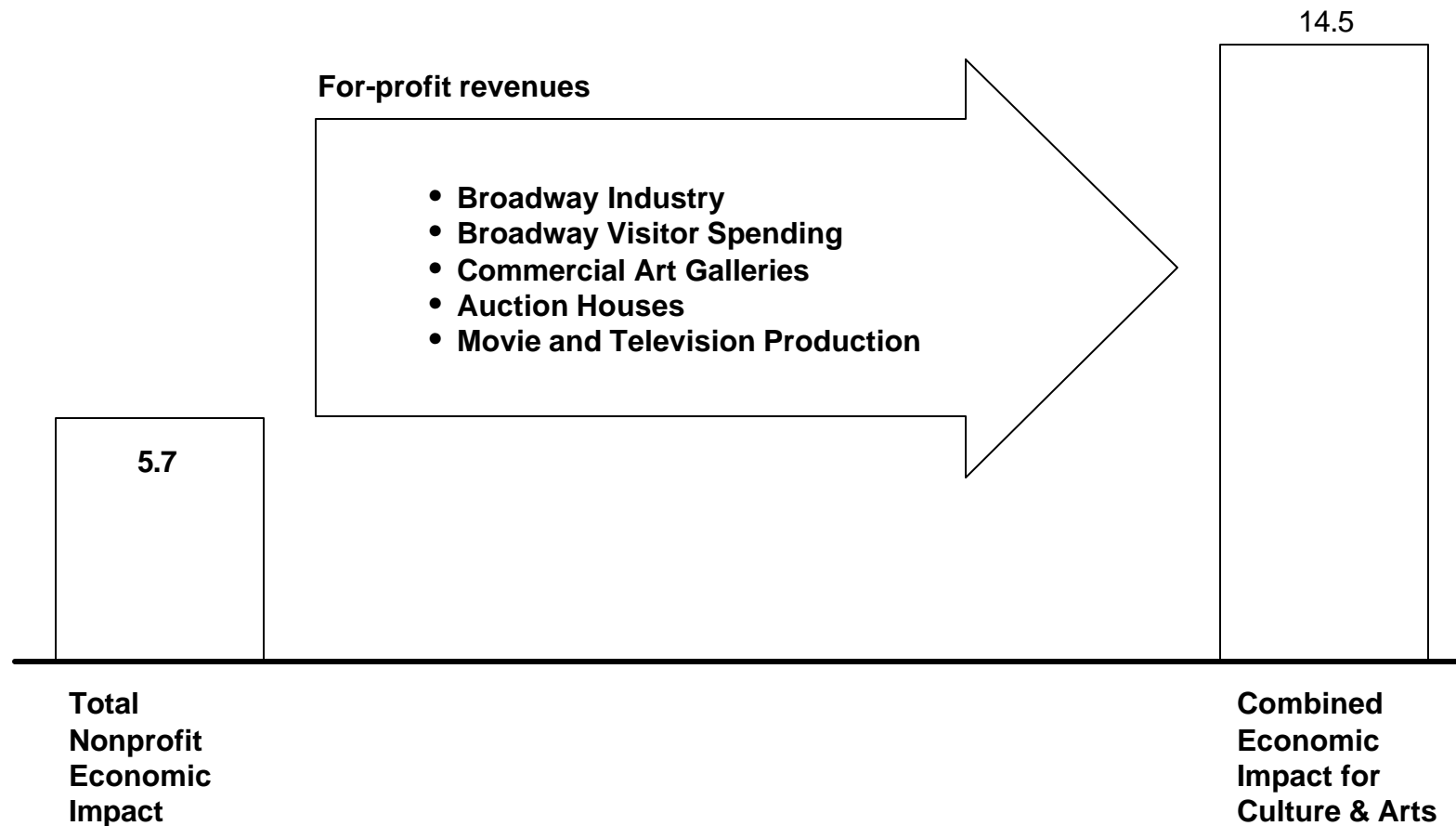
...WHICH DRIVE FOR-PROFIT RETURNS RESULTING IN A TOTAL OF \$14.5 BILLION IN ECONOMIC IMPACT



CONSERVATIVE

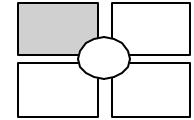
Combined Arts & Culture Economic Impact (2000)

\$ billions



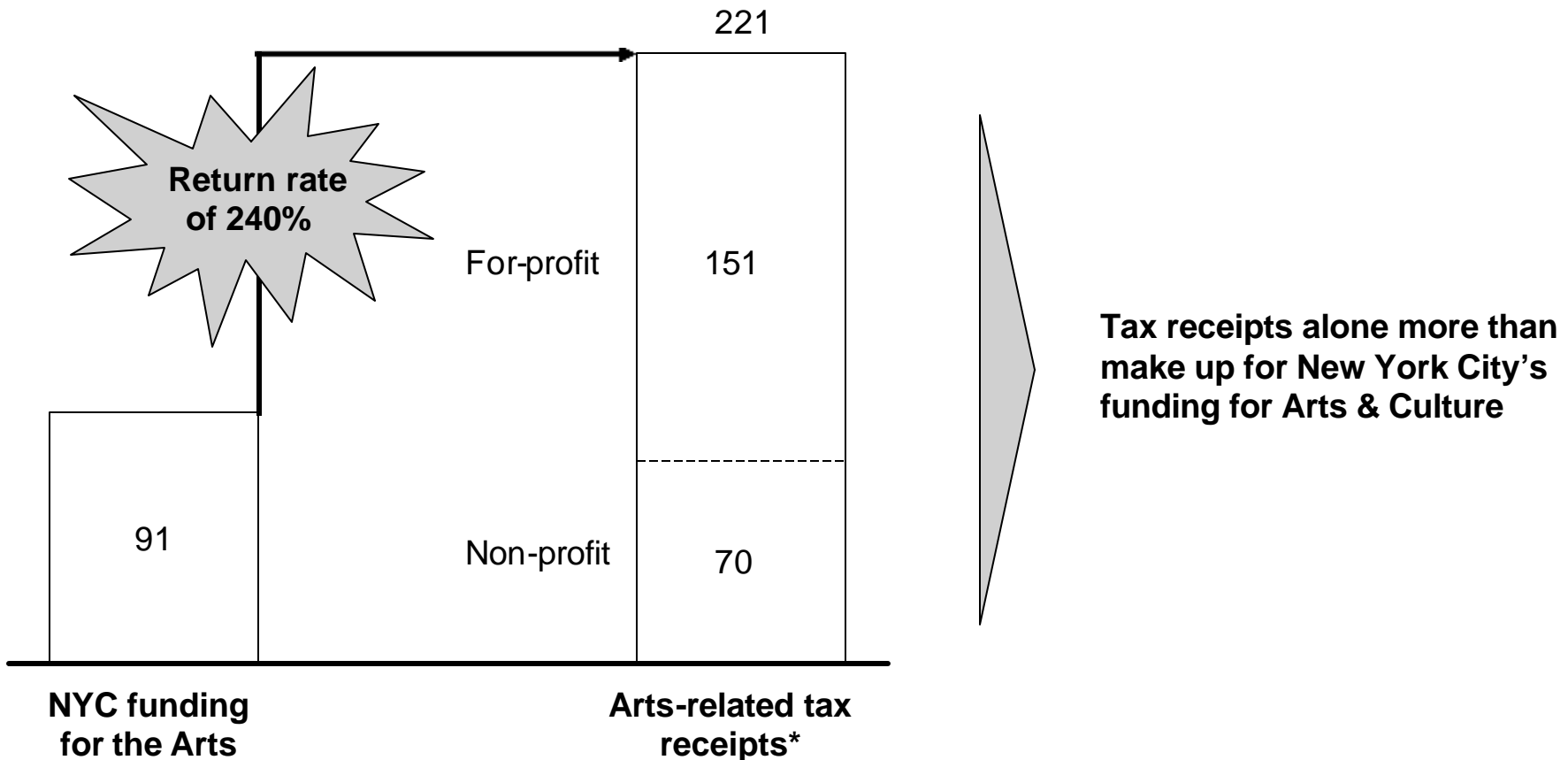
Sources: Arts Research Center/Alliance for the Arts, *Who Pays for the Arts?* (2001), *The Economic Impact of the Arts on New York City and New York State* (1997), and *You Gotta Have Art!* (July 1997)

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



Cultural Return on Investment (1995)

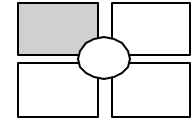
\$ millions



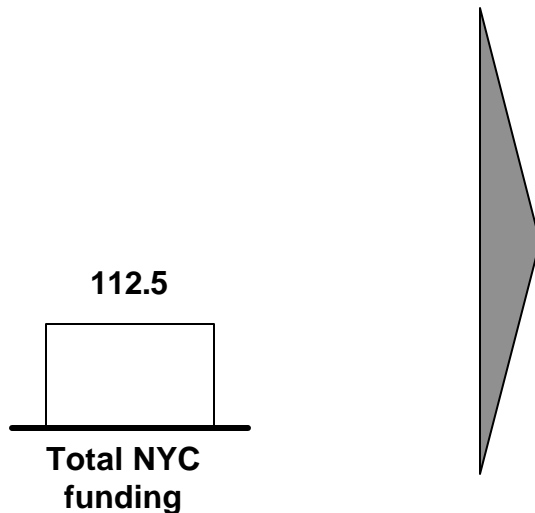
* Including taxes on direct expenditures of nonprofit cultural institutions, on their employees' spending, and on visitors outlay; analysis based on tax percentage of spending generated by the Arts in New York City totaling an estimated \$13.4 billion in 1995.

Source: Alliance for the Arts, "You Gotta Have Art!" – Profile of a Great Investment for New York State, July 1997

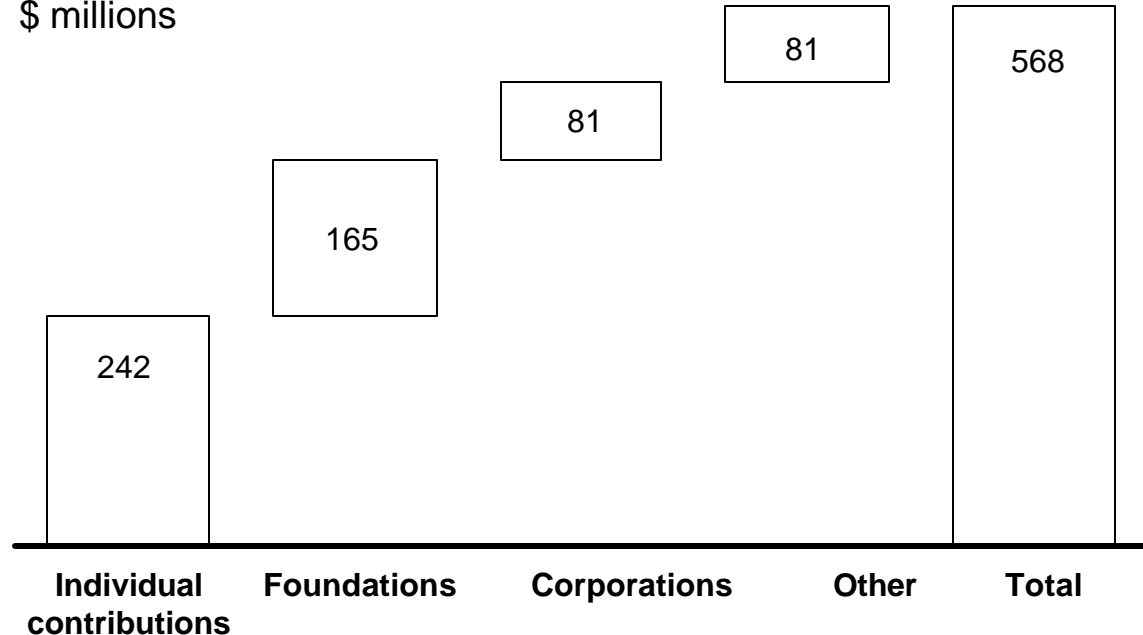
CITY FUNDING IS INSTRUMENTAL IN DRIVING PRIVATE CONTRIBUTIONS¹



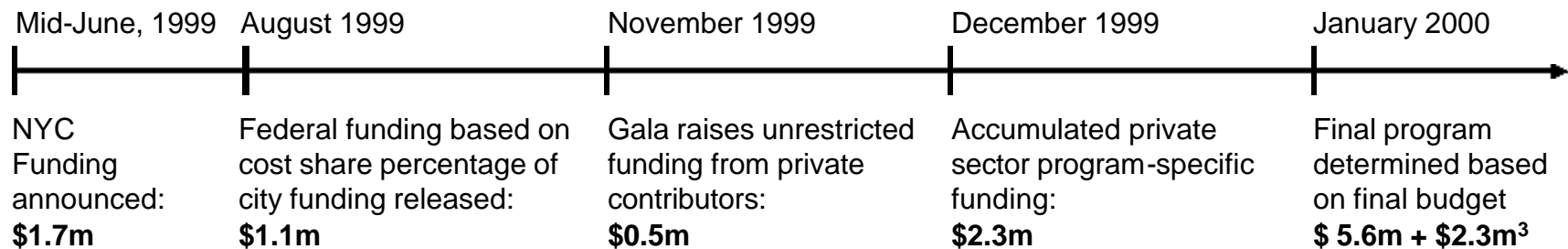
City Funding (1999)
\$ millions



Private & Other Contributions (1999)
\$ millions



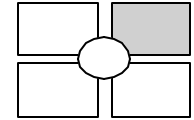
Case example: NY Hall of Science (Queens), 2000²



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

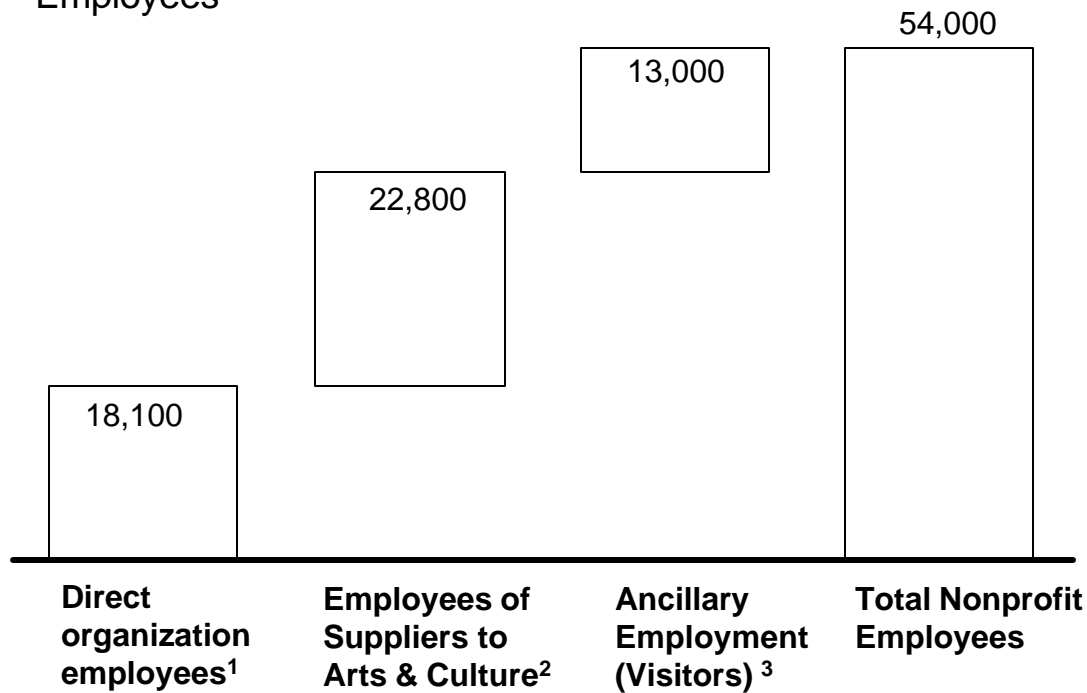
Sources: Alliance for the Arts, *Who Pays for the Arts?* (2001), press clippings, New York Hall of Science

CULTURE AND ARTS PROVIDE JOBS FOR MANY PEOPLE IN NEW YORK CITY



Nonprofit Arts & Culture Employment (2001)

Employees



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

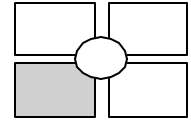
1. Assumes an average compensation of \$37,318. Average compensation is based on the midpoint between the average from a 1993 study corrected for inflation (\$35,000) and weighed compensation of a sample of 18 organizations from the current database representing 50% of total compensation (\$36,656).

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?”



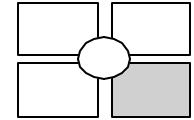
“Do you sometimes wish you had more chance to do creative work when you were young?”



* Sample of 805 residents of the 5 New York boroughs, using random digit dialing (margin of error for the study $\pm 3.5\%$)

Source: Survey conducted by the Fordham Institute for Innovation in Social Policy

CASE STUDY: REVITALIZING NEWARK THROUGH THE ARTS

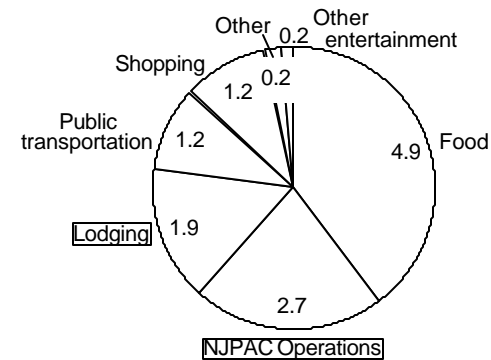


Bringing the arts to Newark, New Jersey

- 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

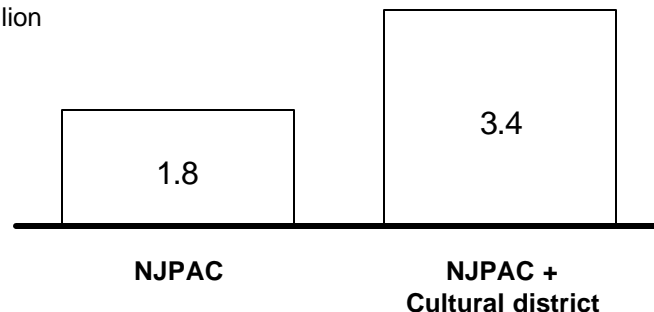
Creating new local spending

- Audiences attending NJPAC spend additional money amounting to a total of **\$12.3 million**



Generating significant tax returns

Property and other Taxes, 2003
\$ million

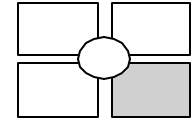


- On top of annual tax returns, the taxes stemming from construction amounted to approximately **\$20 million**

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

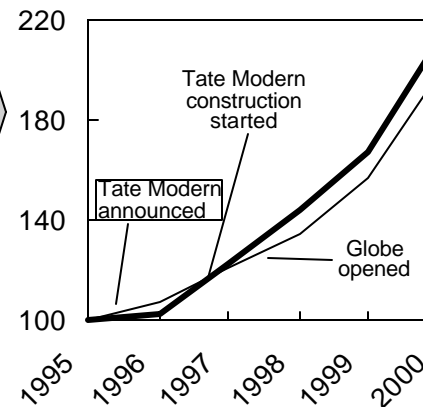


Bringing the Arts to Southwark, London

- 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

Indexed prices



CAGR '95-97 CAGR '97-00

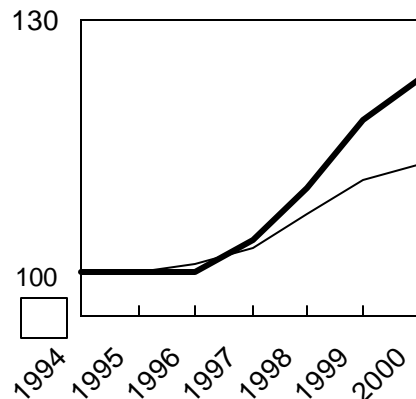
Southwark **10.5%** **20.4%**
London **9.8%** **18.2%**

*"The new office in SE1 has become Stirling Ackroyd's (property realtor) busiest by a mile."
- Sunday Business, 2000*

Increasing commercial development

Net number of VAT registered businesses

Indexed



CAGR '95-97 CAGR '97-00

Southwark **1.3%** **5.8%**
London **1.0%** **3.2%**

*"Call it Southbank ... or Southwark ... this is perhaps London's most exciting quarter."
- London Property Guide, 2001*

Increasing job opportunities

New businesses ...

created jobs

- The number of hotel and catering businesses in Southwark increased by 23% from 1997-2000

- 3,000 jobs were created as part of revitalization
- Tate Modern directly created 467 jobs, with 1/3 employees living in Southwark

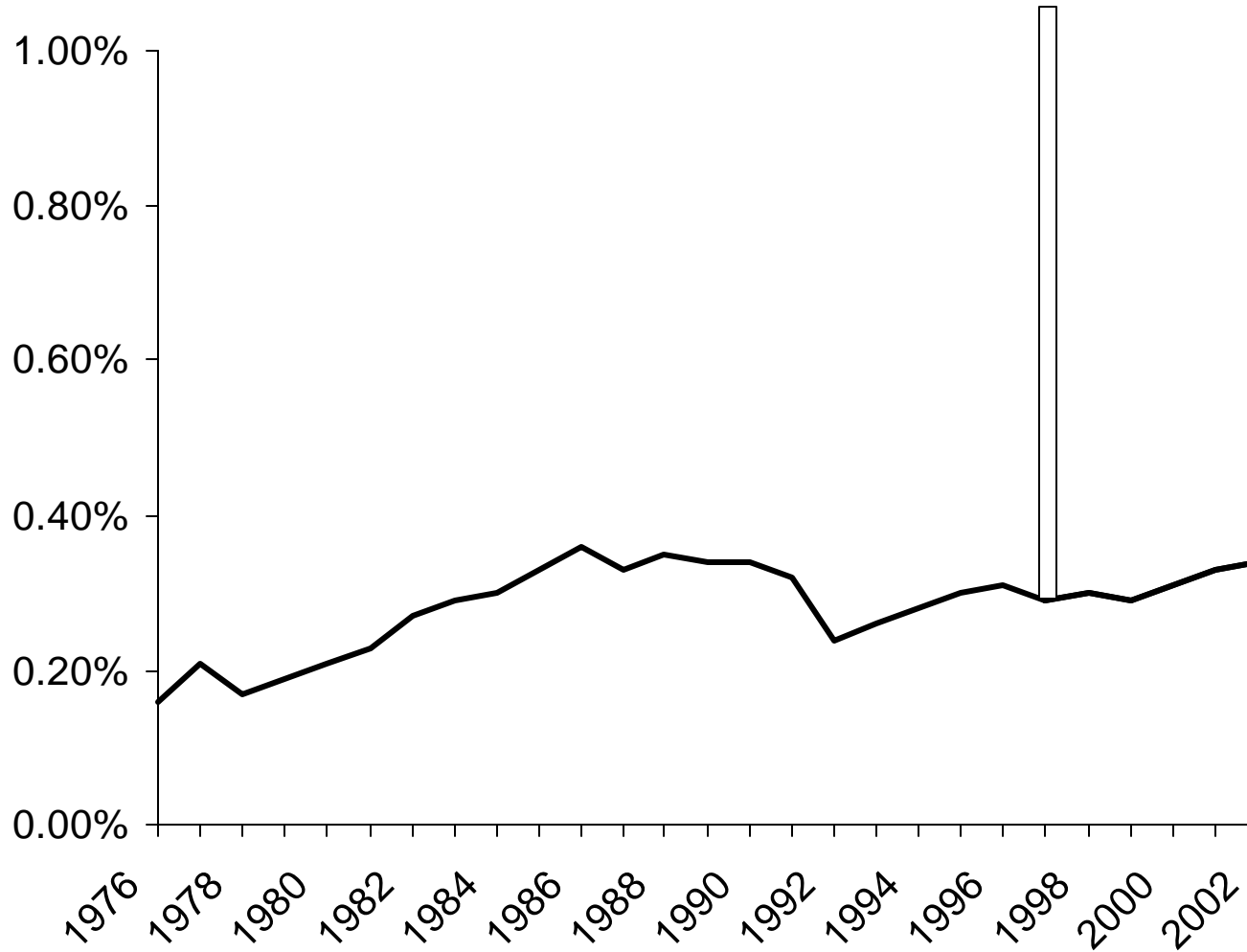
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DEPARTMENT OF CULTURAL AFFAIRS' SHARE REPRESENTS LESS THAN HALF A PERCENT OF THE TOTAL CITY BUDGET

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

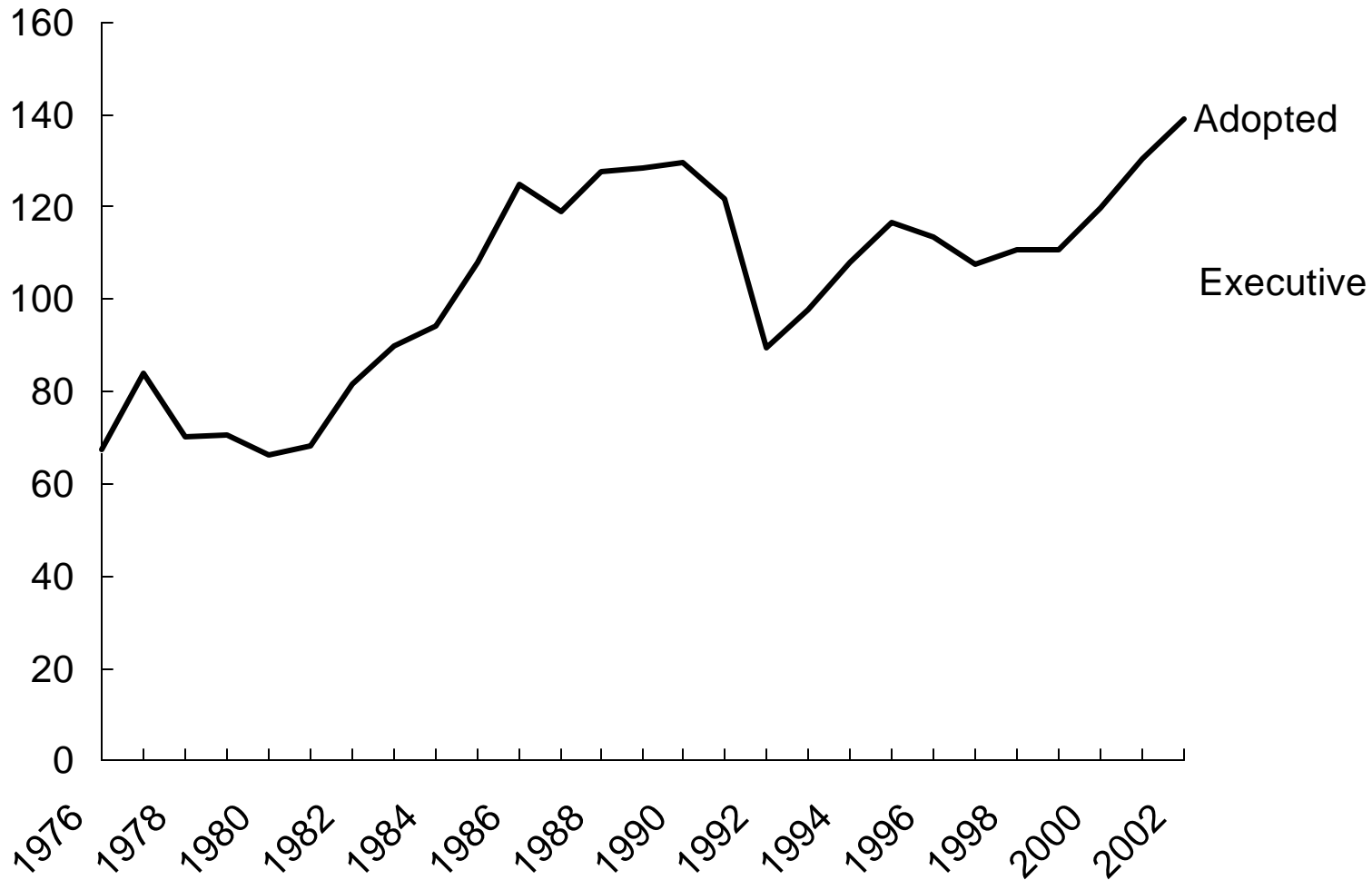
Percent of total City Budget



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

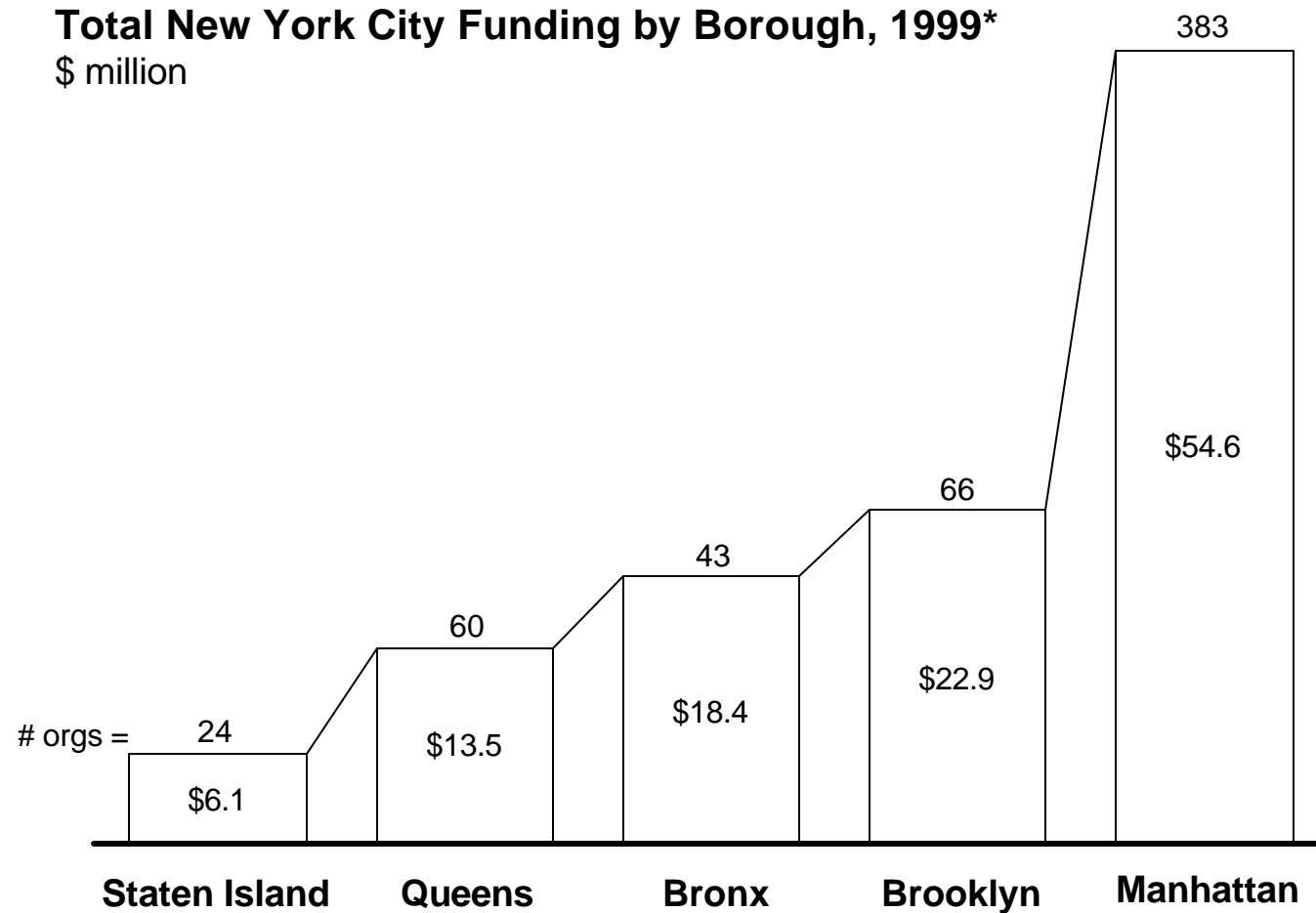
HISTORICALLY, THE CITY COUNCIL HAS PLAYED A SIGNIFICANT ROLE IN BRINGING UP CITY FUNDING FOR THE ARTS

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 ...

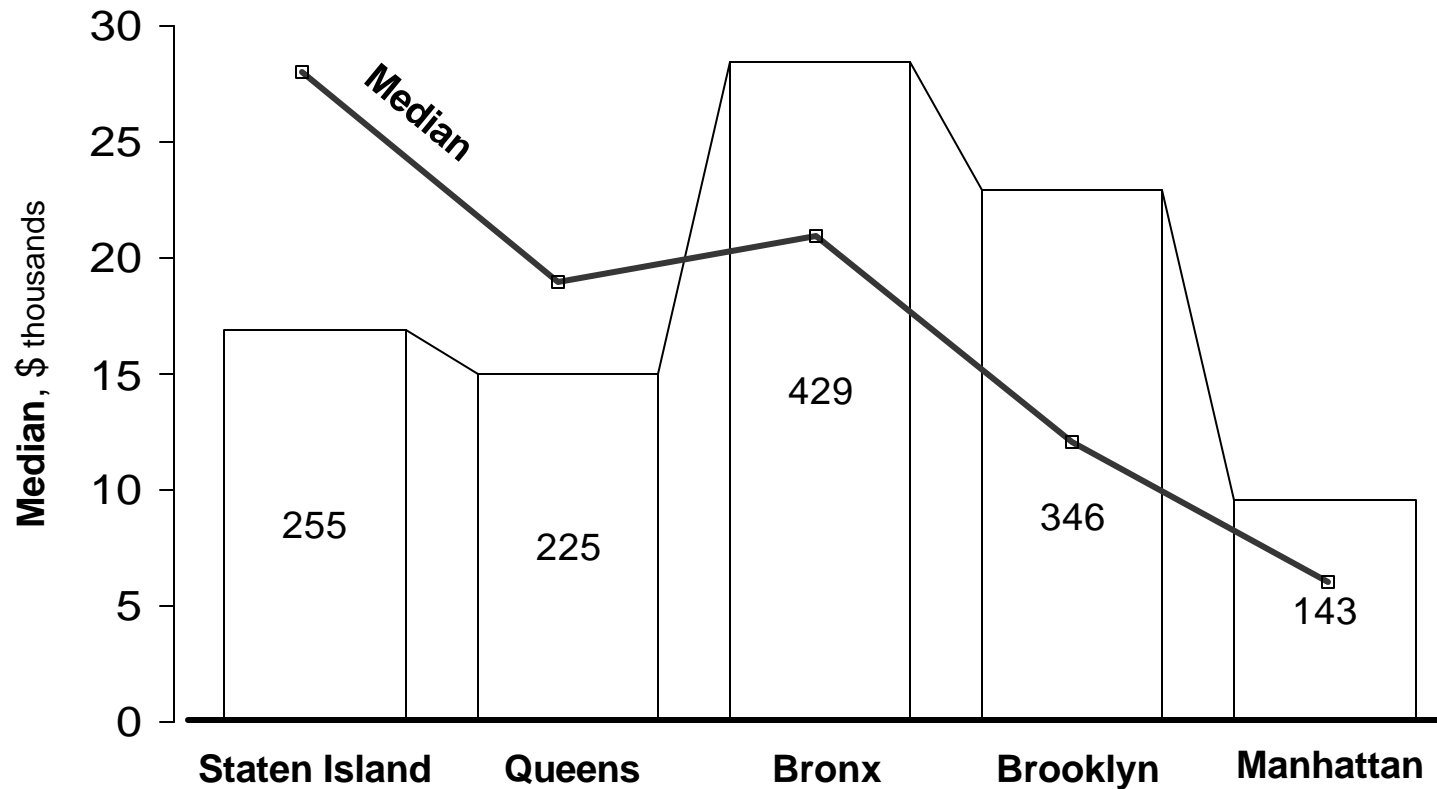


* Sample of 576 cultural organizations in New York City
Source: Alliance for the Arts, *Who Pays for the Arts?* (2001), team analysis

THE AVERAGE AND MEDIAN FUNDING PER CULTURAL INSTITUTION IS LOWEST IN MANHATTAN

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

\$ thousands

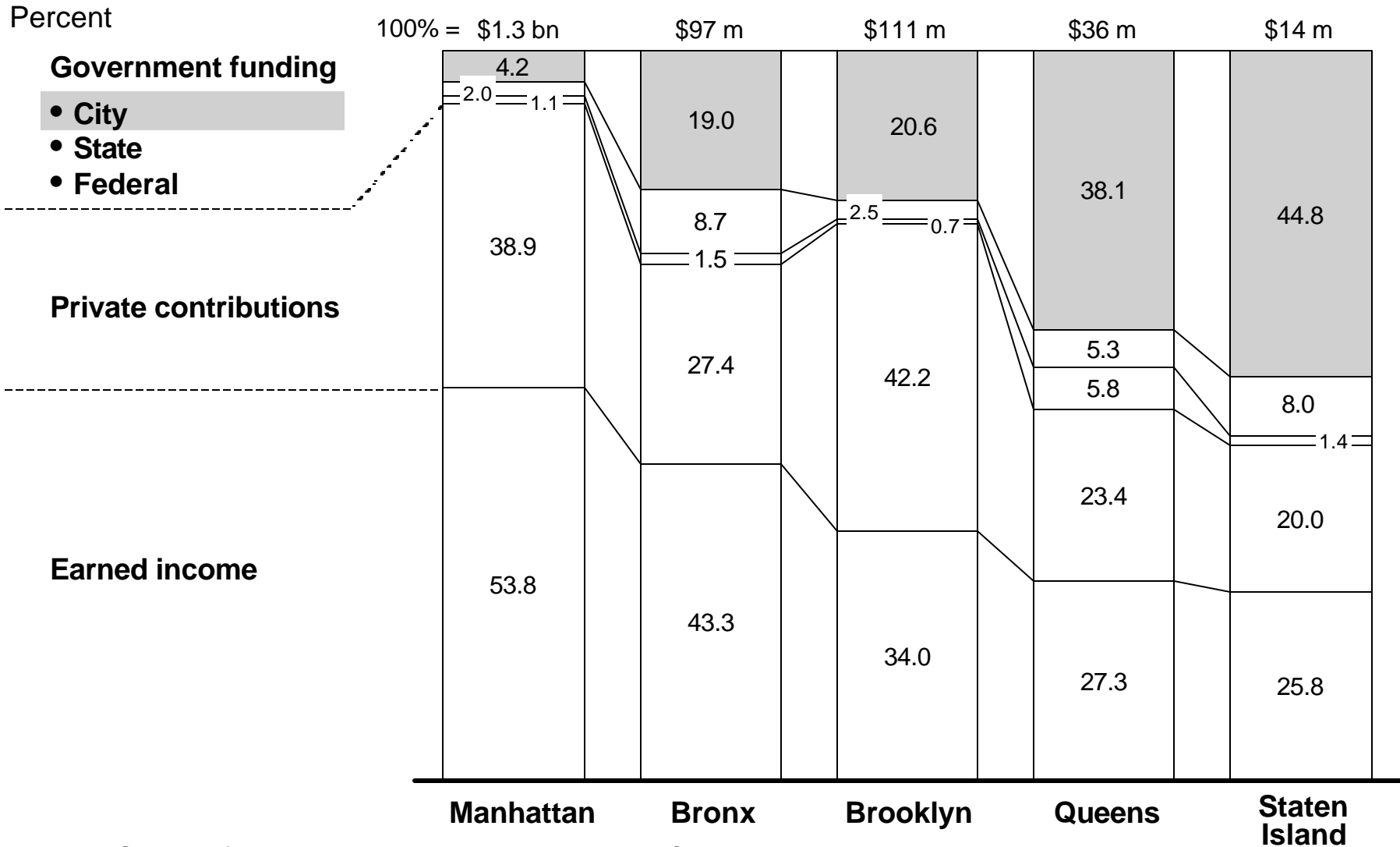


* Sample of 576 cultural organizations in New York City

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

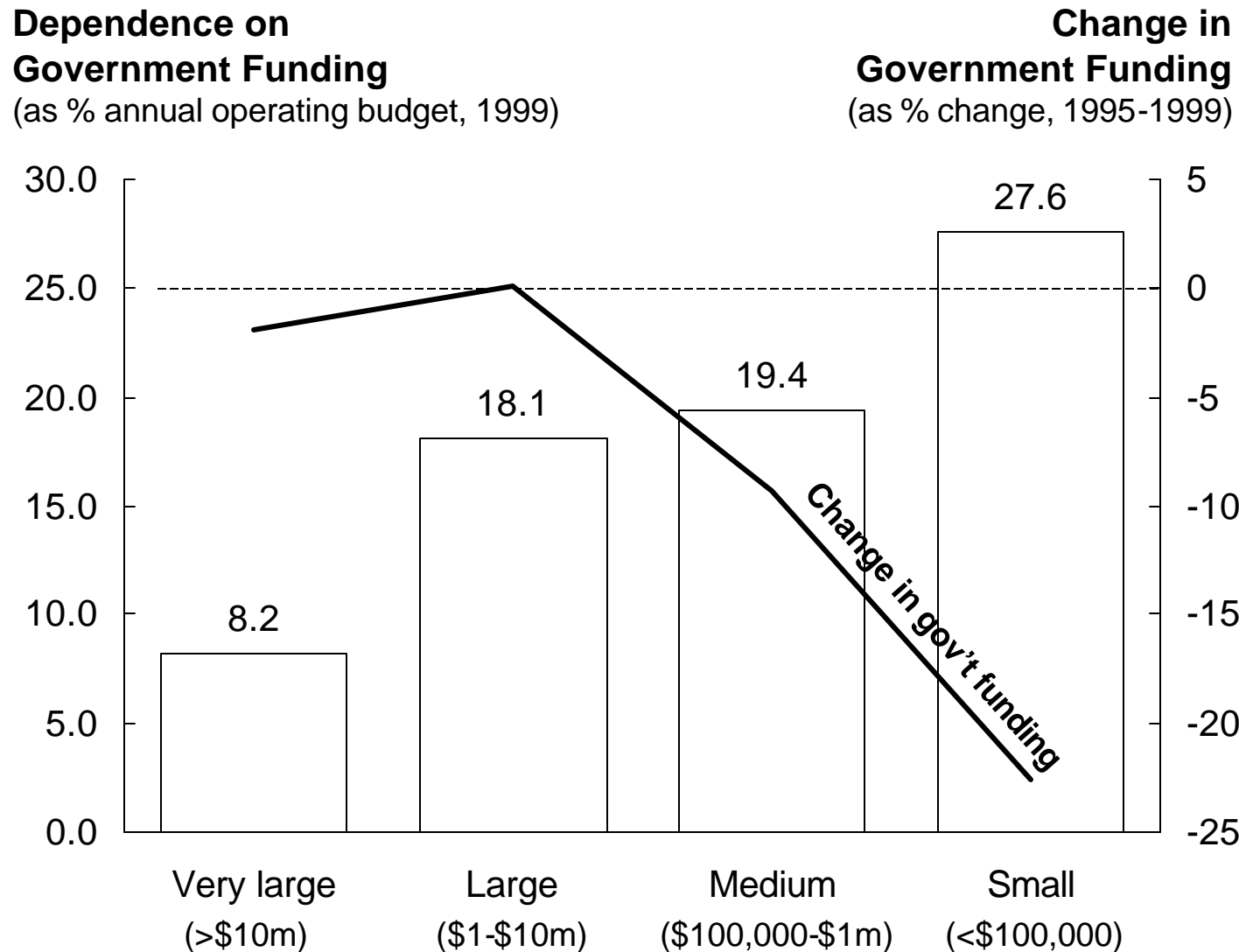
Income as Share of Total Funding by Borough, 1999



* Sample of 576 cultural organizations in New York City

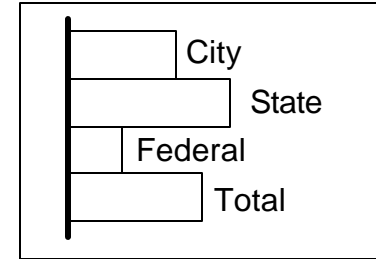
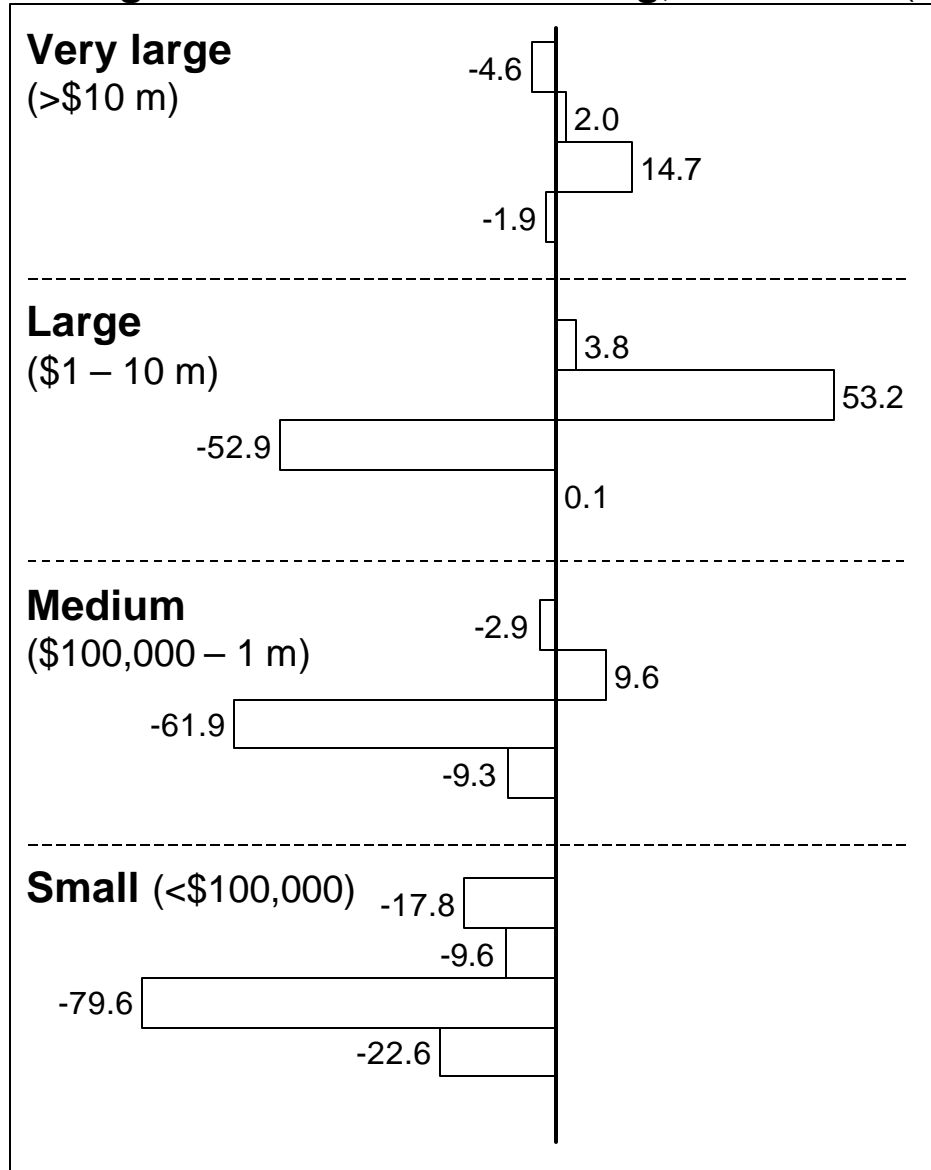
Source: Alliance for the Arts, *Who Pays for the Arts?* (2001), team analysis

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



OVERALL GOVERNMENT FUNDING HAS DECREASED

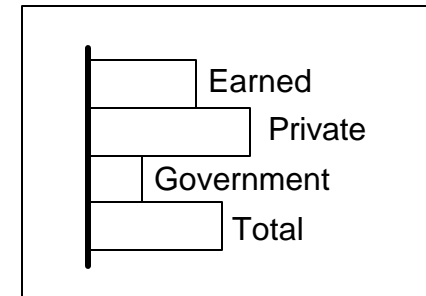
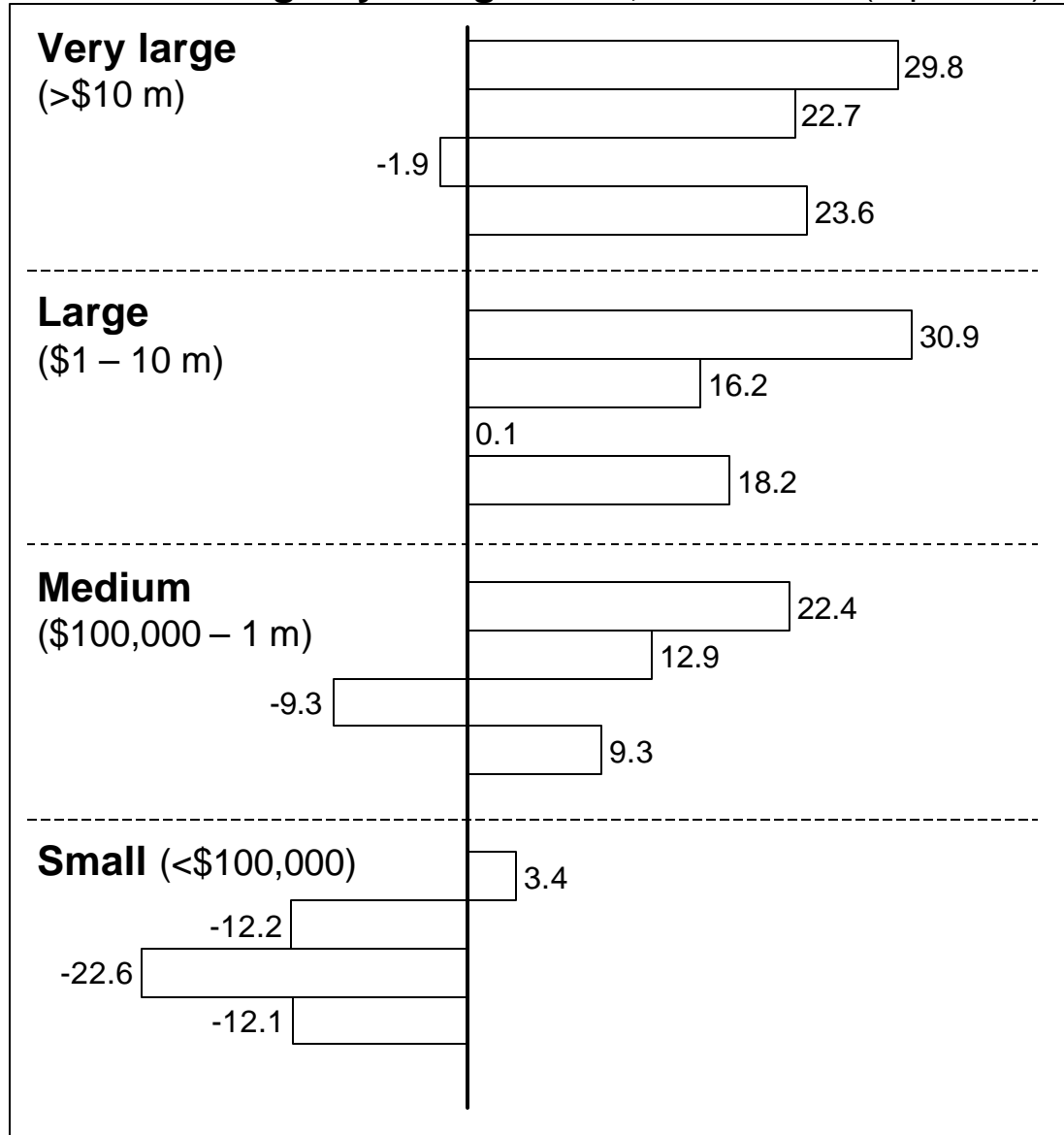
Change in Government Funding, 1995-1999 (in percent)



- 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)

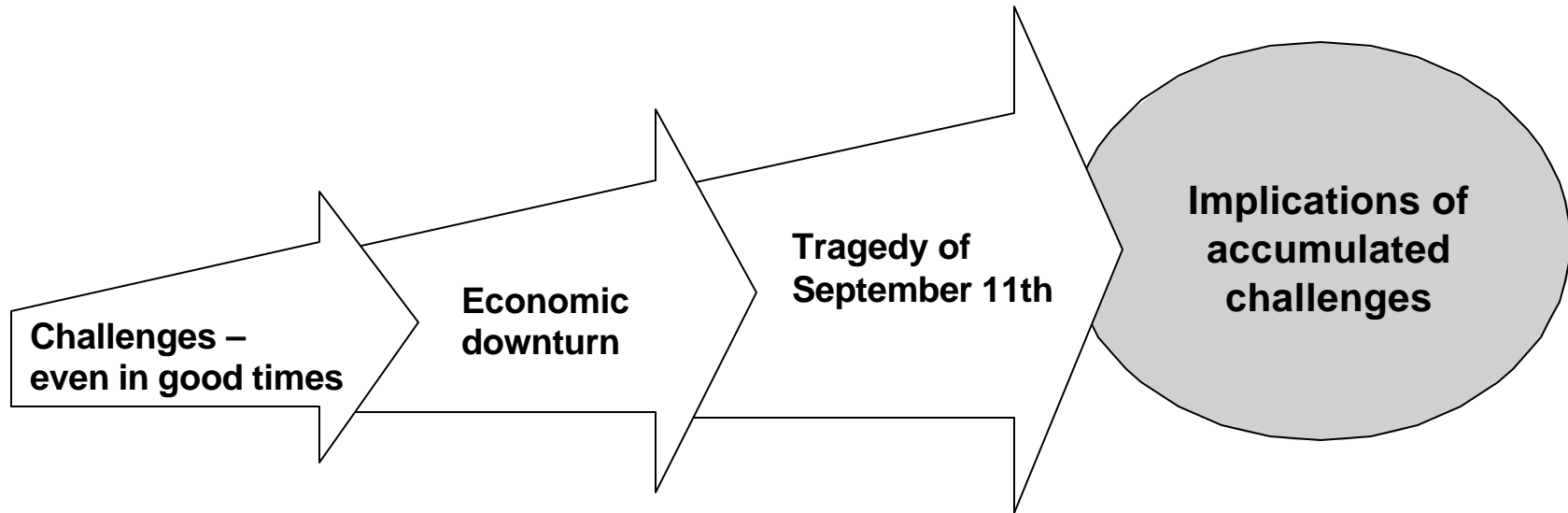


- Large organizations, with annual budgets exceeding \$1 million, have experienced substantial growth in earned and private incomes
- Smaller organizations have been hit not only by large government cuts but also by a decrease in private sponsorship

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CHALLENGES FACING NYC'S CULTURAL SECTOR



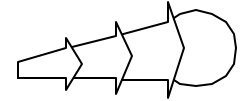
- Most cultural institutions have no safety net to soften the blow from harder economic times (i.e., no endowments)
- Smaller institutions get less private funding, earn less and suffer steepest decline of government support (-22.6%)
- Increased rents in art zones put strain on cultural institutions

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

- 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

- 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

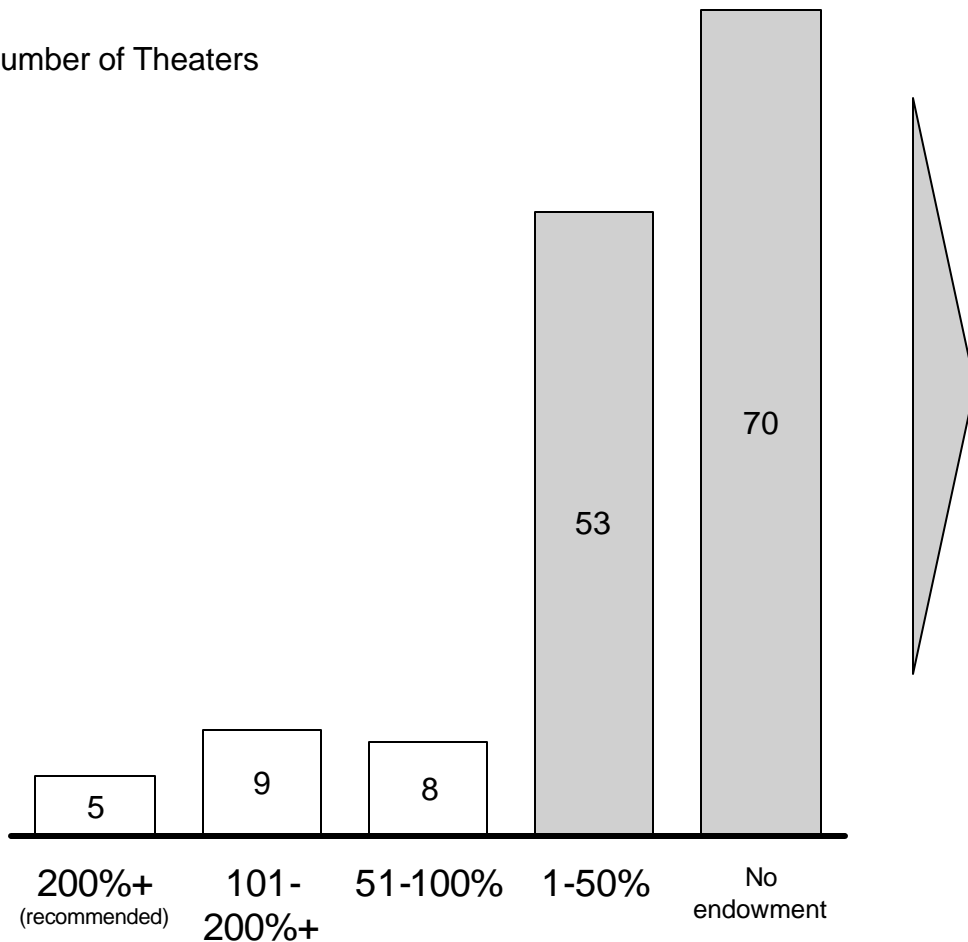


CASE STUDY: THEATERS

Endowments of Nonprofit Theaters

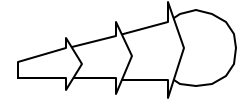
as % annual company budget, 2000

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)

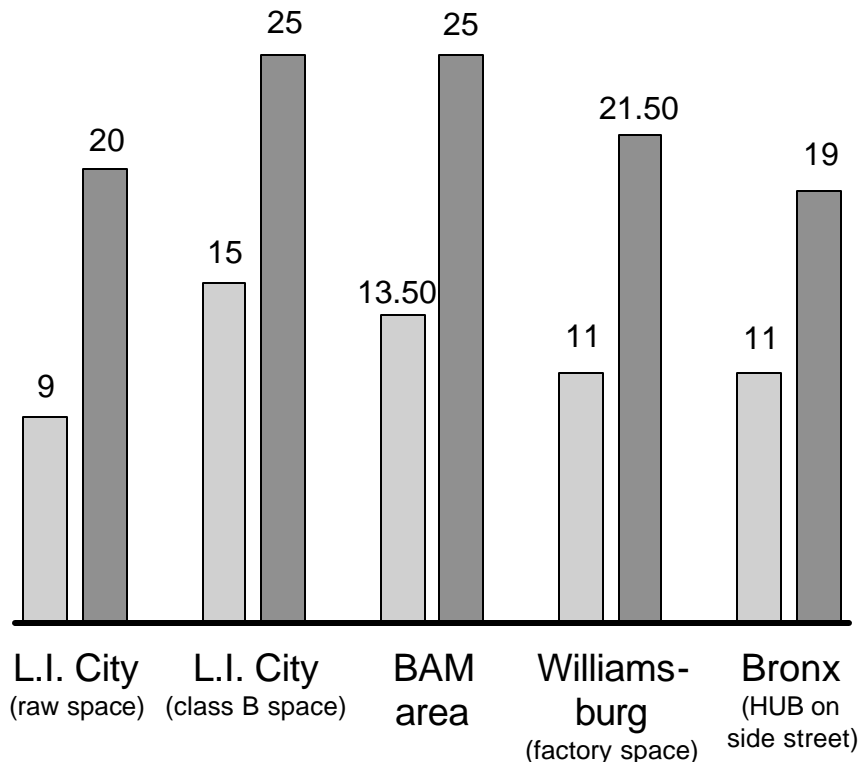
SMALL COMPANIES SQUEEZED BY HIGH RENTS



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

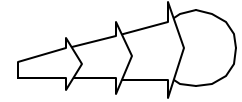
Price per square foot

March 2000
March 2001



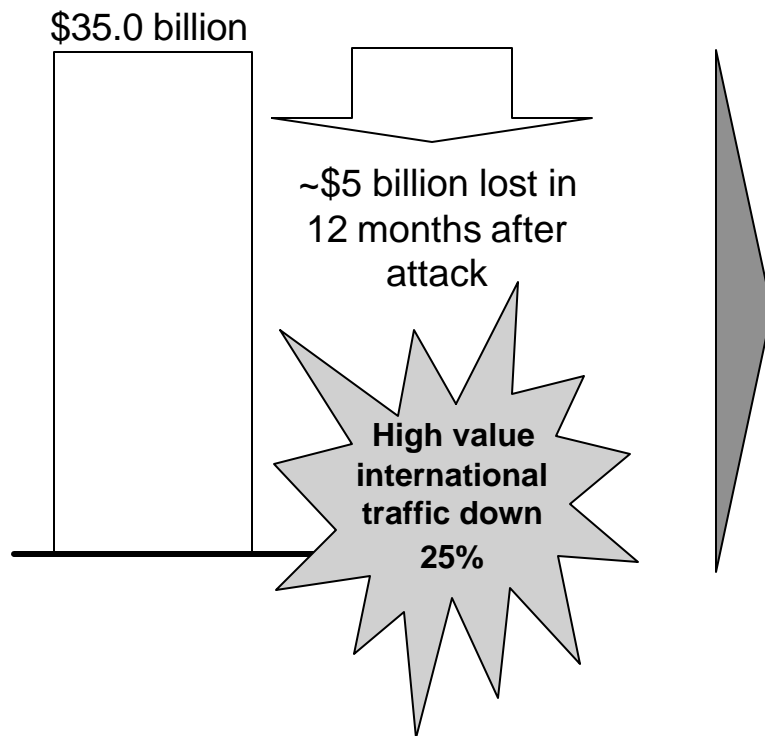
- Arts-oriented districts such as Chelsea, Brooklyn's Fort Greene and Queens' Long Island City rank among the neighborhoods that have seen significant rent increases
- Rents climbed more rapidly in the city's arts hot spots than almost anywhere else in the five boroughs
- Between 1996 and 2000, rents 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 AND OF SEPTEMBER 11th

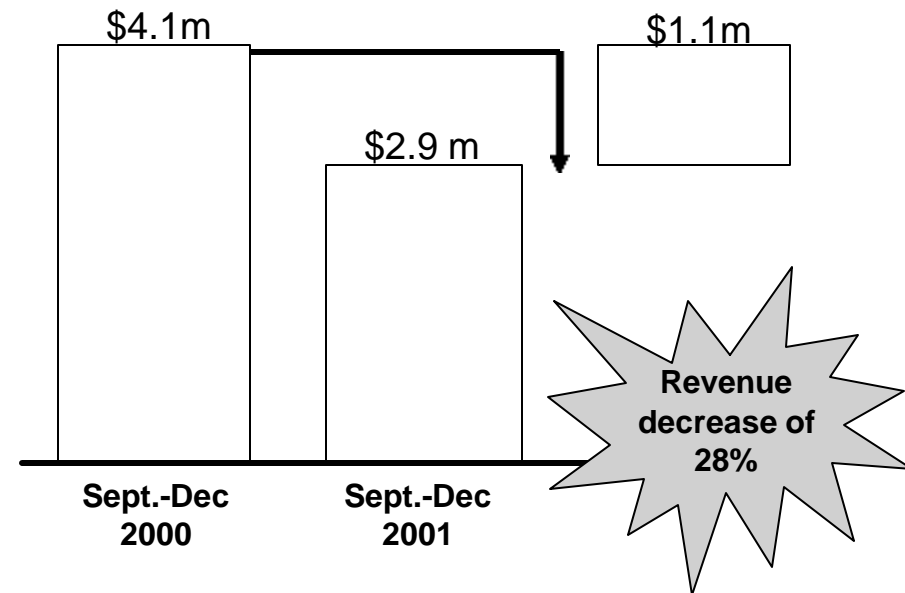


CASE STUDY: THE MET

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

