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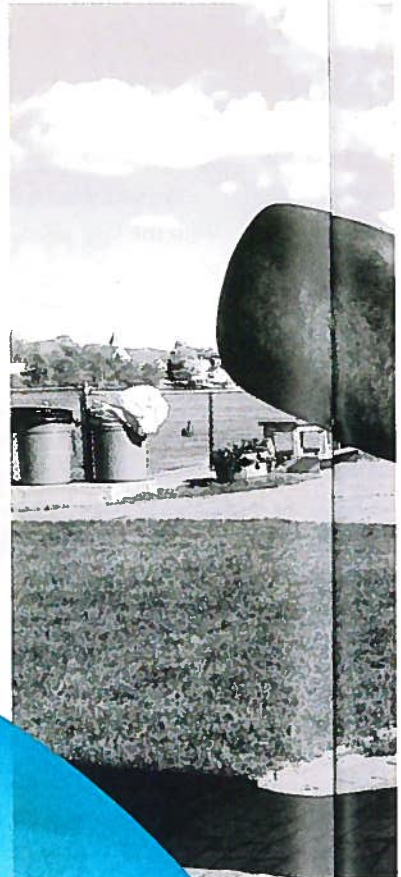
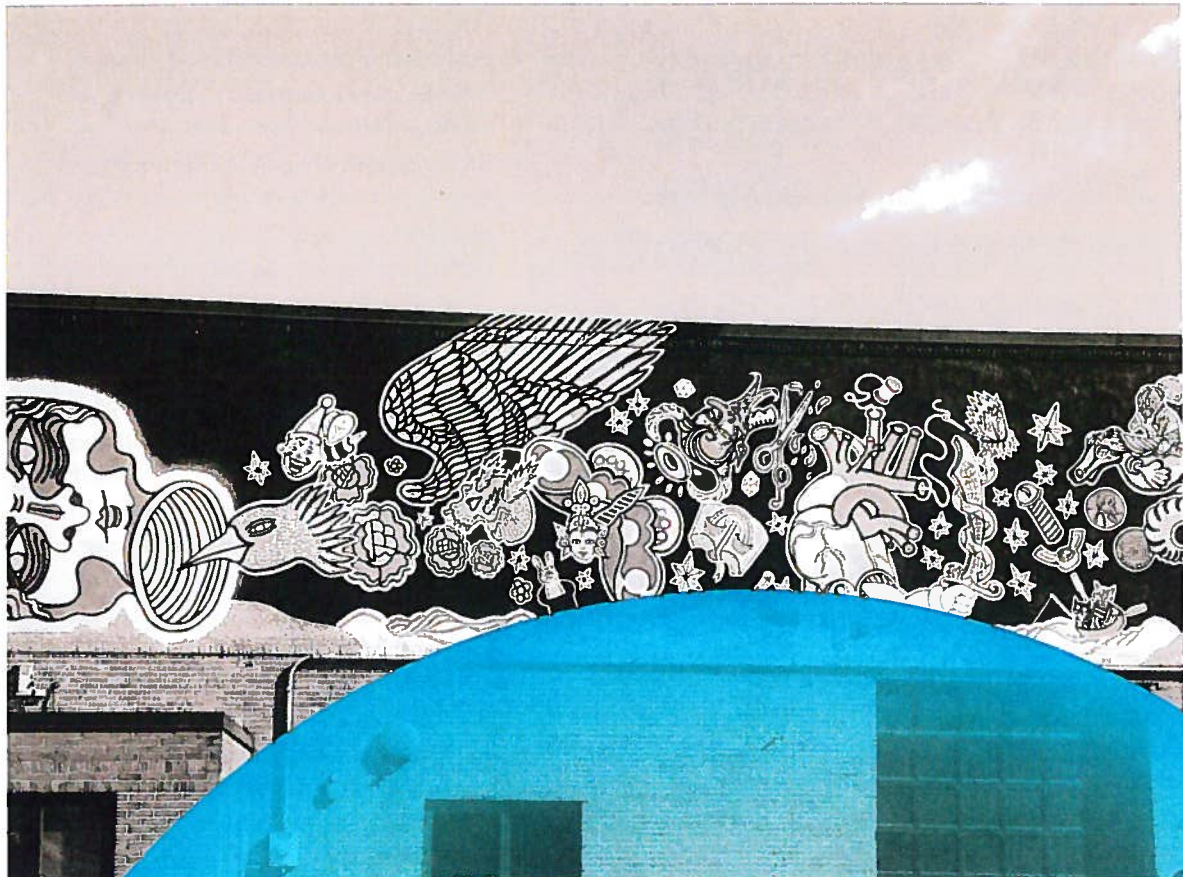
PM

PUBLIC MANAGEMENT

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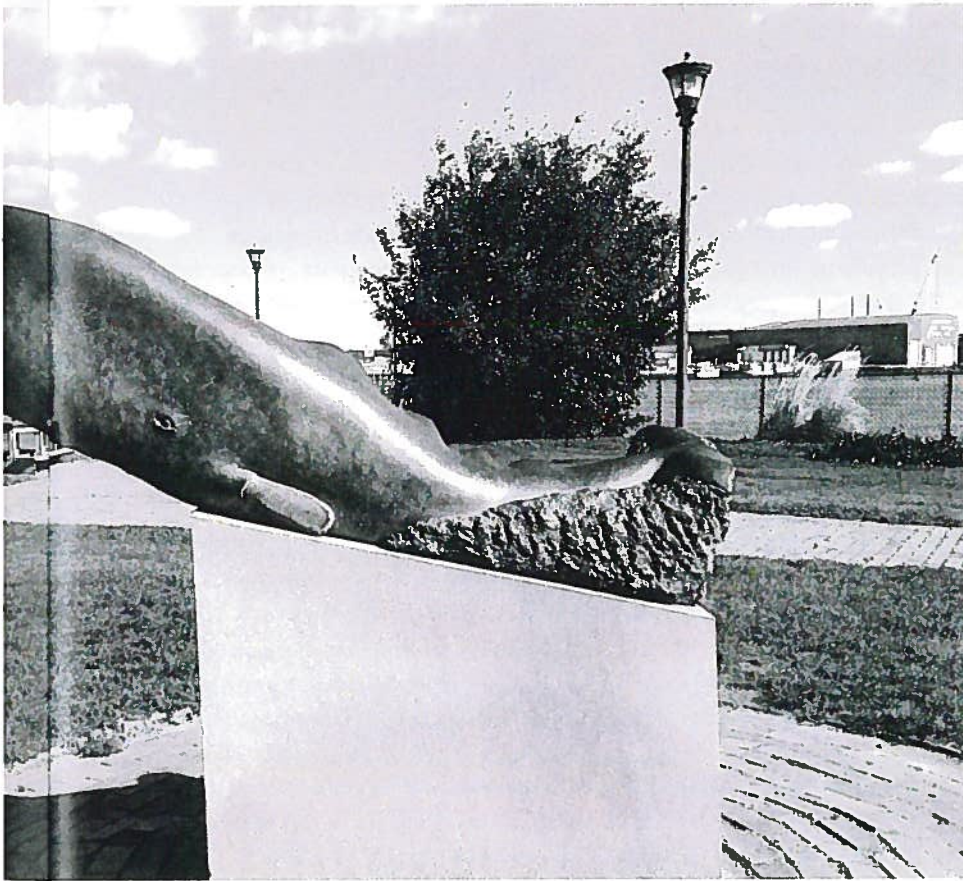
- HOW TO MEET -
**UNEXPECTED
MANAGEMENT CHALLENGES
& SURVIVE**



THE Arts Mean BUSINESS

First in a series of three articles on the value
of nonprofit arts and culture organizations

By Robert Lynch



FROM LEFT TO RIGHT: "Inside Outside," mural on 3S ArtSpace building by Artist Peter Flynn Donovan, Portsmouth, New Hampshire, 2011. See link http://www.3sarts.org/news_and_events.cfm?sarticleID=9. "Fisherman's Luck," Australian granite whale by Cabot Lyford in Prescott Park, Portsmouth, 1979. "Moose Myth," stick moose by Andy Moerlin and Donna Dodson in Portsmouth's Market Square, 2010.

America's local governments were hit hard by the Great Recession.

As managers, you have made some extremely tough and unpleasant decisions when preparing your budgets. You have likely cut important and valuable programs because of budget deficits. Luckily, the tide is finally turning in communities where revenues are increasing once again.

Managers might be hearing about the importance of promoting small business and about how Main Street is the key to our economic recovery. Unfortunately, many community leaders do not recognize that nonprofit arts and culture organizations are just that: small businesses.

They are resilient and entrepreneurial. They are local employers, producers, and consumers. Their spending is far-reaching: they pay employees, purchase supplies, contract for services, and acquire assets within their community.

In addition, unlike most industries, nonprofit arts and culture organizations leverage a significant amount of event-related spending by their audiences. When people attend a cultural event they may pay to park their car, purchase dinner at a restaurant, shop in nearby stores, eat dessert after the show, and pay a babysitter when they get home. Cultural tourists often spend the night in a hotel. All of these dollars generate commerce for local businesses.

TAKEAWAYS

- › The nonprofit arts are an economic engine in every city in America and have an economic impact of more than \$135 billion.
- › The 100,000-plus nonprofit arts organizations are small businesses directly employing more than 1 million jobs and supporting an additional 3 million.
- › Nonprofit arts are a strong investment with organizations and their audiences contributing more than \$22 billion in local, state, and federal taxes.

Case Study: PORTSMOUTH, NEW HAMPSHIRE

Portsmouth, New Hampshire (population 21,000), participated for the third time in the Arts and Economic Prosperity IV study conducted in 2011 by Americans for the Arts, Washington, D.C.

Using a widely accepted economic input-output model, this study measured the economic impact of the nonprofit arts sector to the city's economic vitality. In 2011, we learned that nonprofit arts organizations in Portsmouth contributed \$41.4 million to the local economy and supported 1,270 full-time equivalent jobs. These businesses also returned \$2.7 million in local government revenue.

The city understands and values the importance of this sector of the economy to the quality of life for our residents and as an attraction for both business and visitors. Through the city's participation in the prosperity study in 2000, 2005, and 2010, our residents and elected officials have come to understand the quantitative value of the nonprofit arts and culture sector as a local economic driver.

A prime example of this growth is when you compare 2005 data to 2010. In Portsmouth, even after enduring the Great Recession, total arts organizational spending along with audience spending increased by \$3.2 million (from \$38.2 million to \$41.4 million).

Without the direct and indirect benefit of these creative businesses, Portsmouth would be a much less interesting and economically vibrant city.



JOHN BOHENKO, ICMA-CM
City Manager
Portsmouth, New Hampshire
jbohenko@cityofportsmouth.com

More and more, key decisionmakers—along with the general public—are recognizing these impressive economic benefits provided by our cultural industry. Fundamentally, the arts foster beauty, creativity, originality, and vitality. They inspire us, soothe us, provoke us, involve us, and connect us. But they also create jobs and contribute to the economy.

National Study Documents Economic Impact

Americans for the Arts recently published Arts and Economic Prosperity IV, its fourth national study of the economic impact of spending by nonprofit arts and culture organizations and their audiences. The most comprehensive study of its kind ever conducted, this study evaluated the economic impact of the nonprofit arts industry in 182 U.S. communities representing all 50 states and the District of Columbia. (See sidebar, "Case Study: Portsmouth, NH.")

These diverse communities range in population from 1,600 residents (Gunnison, Colorado) to more than four million (Houston/Harris County, Texas). To complete the national analyses, researchers collected survey data from 9,721 nonprofit arts and cultural organizations and 151,802 of their event attendees. Finally, the project economists built 182 customized economic input-output models—one for each community.

The study findings are impressive (see Figure 1). In spite of the funding challenges created by the Great Recession, nonprofit arts and culture remain a thriving industry. Nationally, it generated \$135.2 billion in total economic activity during 2010—\$61.1 billion by the organizations themselves, plus an additional \$74.1 billion in event-related expenditures by their audiences. This economic activity supports 4.1 million full-time equivalent (FTE) jobs and generates \$86.7 billion in resident household income.

A Key Jobs Supporter

What company would you name as your city's largest employer? Most likely it would be a local manufacturer, a hospital

system, or a nearby university. Chances are you would not consider the nonprofit arts for your short list of candidates. But consider a few of the cities that participated in the Prosperity IV study.

In Telluride, Colorado (population 2,361), spending by nonprofit arts organizations and their audiences supports 740 FTE jobs, almost a third of the population. In Laguna Beach, California, that number is 718; and in Providence, Rhode Island, the industry supported 2,577 FTEs.

In fact, according to a comparison with statistics from the U.S. Department of Labor, the nonprofit arts and cultural industry supports approximately 0.87 percent of the entire U.S. workforce. That may not seem too impressive—until you consider that the same data demonstrates that elementary school teachers make up 1.17 percent of the workforce, police officers represent 0.51 percent, farmers account for 0.32 percent, and firefighters represent 0.24 percent.

Generating Revenue

Ask the question, "How much do you think all levels of government (local, state, and federal) appropriate to support nonprofit arts organizations?" to city officials and their staffs and you'll receive answers ranging from "not enough" to hundreds of billions of dollars. The real answer is approximately \$4 billion each year, and that's only if you count everything that even remotely resembles support for the arts.

About one-quarter of that funding—\$1 billion—is provided by city government sources. Then ask, "How much tax revenue is generated for the various levels of government by the nonprofit arts industry?"

Most have never considered the question. Thanks to the study, of course, we know that the answer is \$22.3 billion. If you do the math, that represents a return on-investment greater than 5-to-1.

In Flagstaff, Arizona, population 60,222, the city invested \$355,000 in the current fiscal year into nonprofit arts, culture, and science organizations; however, according to the study, the city collected \$3,836,000 in local government revenue as

FIGURE 1: Source of Estimated Revenue for Nonprofit Arts Organizations

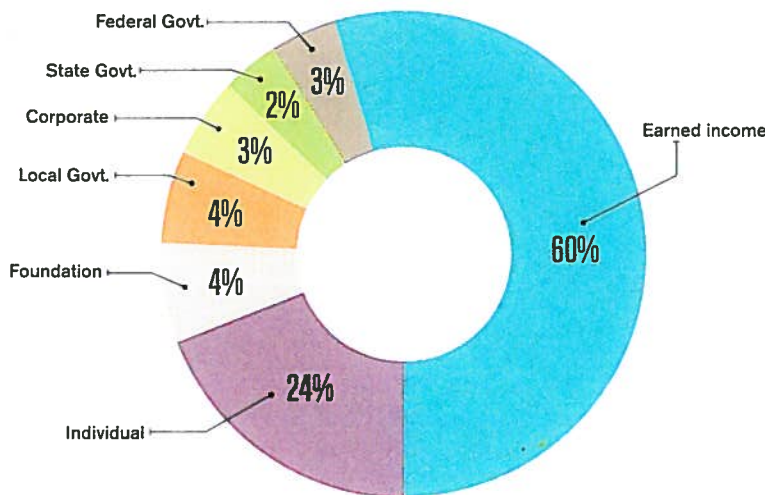


FIGURE 2: Economic Impact of the Nonprofit Arts and Culture Industry (2010)
(Combined spending by both nonprofit arts and cultural organizations AND their audiences)

Total Direct Expenditures	\$135.2 BIL
Full-Time Equivalent Jobs	\$4.13 MIL
Resident Household Income	\$86.68 BIL
Local Government Revenue	\$6.07 BIL
State Government Revenue	\$6.67 BIL
Federal Income Tax Revenue	\$9.59 BIL

a result of nonprofit art groups activities. That is more than a 9-to-1 return on investment! In other words, investing in the arts is a smart business decision.

Measuring Economic Impact

The Prosperity IV study uses a sophisticated economic analysis called input-output analysis to measure economic impact. It is a system of mathematical equations that combines statistical methods and economic theory. Input-output analysis enables economists to track how many times a dollar is “respent” within a local economy and the economic impact generated by each round of spending.

A theater company, for example, purchases a gallon of paint from the local hardware store for \$20, generating the direct economic impact of the expenditure.

The hardware store then uses a portion of the aforementioned \$20 to pay the sales clerk’s salary; the sales clerk spends some of the money for groceries; the grocery store uses some of the money to pay its cashier; the cashier then spends some for the utility bill, and so on.

Interestingly, a dollar “ripples” differently through each community, which is why each study region has its own customized economic model.

Here’s another measure of the arts’ economic impact. Nationally, ticket sales account for about 60 percent of what it costs to produce an event or show. The remainder comes from donations, grants, and government support (see Figure 2).

On average, a nonprofit arts organization receives only about 4 percent of its revenues from local government (often

as a pass-through grant from your community’s local arts agency). But, this is important as they can take this revenue and the “stamp of approval” that it connotes to attract other funding sources. The 4 percent is then multiplied into 8 percent, 12 percent, or more!

In other words, a small investment by the city can be multiplied into a substantial revenue stream and a source for new jobs.

Capitalizing on the Arts

The first thing that key decisionmakers must recognize is that nonprofit arts and culture organizations exist in every community coast-to-coast—fueling creativity, beautifying our cities, and improving our quality of life. Your city is home to a variety of cultural organizations.

Some may have more visibility than others, but all are working hard to serve the needs of your community and its residents. As your city’s chief executive, look to the arts as an investment rather than a gift, a frill, or even an appropriation.

Just as we invest in infrastructure, schools, and safety, we need also to invest in the arts and culture. As budget processes are completed for upcoming fiscal years, invite your local arts agency and other arts groups to explain how your community’s financial support for the arts can help your area’s economy grow. After all, it’s true that the arts mean business!

To download a copy of the full Arts & Economic Prosperity IV national report, including the individual findings for all 182 participating U.S. communities, visit www.AmericansForTheArts.org/EconomicImpact. **PM**

A three-part article series continues in the March 2013 issue of *PM* with an explanation on why nonprofit arts organizations are the key catalyst for cultural tourism, plus how those tourists generate billions in revenue for local businesses.



ROBERT LYNCH is president and chief executive officer, Americans for the Arts, Washington, D.C. (rlynch@artsusa.org).