

## Effects of the Economic Downturn on Calgary's Arts Organizations

### Introduction

Calgary is facing one of the most challenging economic downturns in thirty years. The City of Calgary recognized the devastating impacts of the downturn on the not-for-profit sector and established the \$5-million-dollar Emergency Resiliency Fund. A targeted partnership with Calgary Arts Development directed \$1-million of that fund to the not-for-profit arts sector. The City of Calgary recognized that the arts sector would face unique challenges during this downturn and wanted to ensure that Calgary and Calgarians continue to benefit from a strong local arts community.

This report is intended to provide an overview of the information collected through applications to the fund administered by Calgary Arts Development. This information should serve as an overall representation of the effect of the economic downturn on a local not-for-profit arts sector that provides over 9,100 activities annually to 3.7 million Calgarians. The report offers insight into financial losses and consequences that were a direct result of the downturn, as well as the ongoing risks to arts organizations and implications for the short-term resilience of the sector.

### Methodology

In April 2016, Calgary Arts Development established the Calgary Arts Emergency Resiliency Fund which was available to any organization who had applied to one of three programs in 2016:

- Cornerstone Program
- Operating Grant Program
- Organizational Opportunity Grant Program

The fund received 47 applications, representing 26% of all organizations who were eligible to apply. Against a total available funding pool of \$1 million, requests to the fund totaled \$2,509,748. Organizations who applied to the fund only requested a portion of their estimated losses of \$5,622,975.

Applicants selected one of two streams for application, under \$10,000 and over \$10,000. The over \$10,000 stream was asked to specify from a list of options the exact categories of financial impacts they were experiencing and where these impacts would have an effect on their activities as an organization, as well as text fields to elaborate on those categories. The categories were modeled after the annual financial form that was required as part of the Cornerstone, Operating Grant and Organizational Opportunity Grant programs. The \$10,000 and under were asked to only complete a text field articulating the financial impacts and effect on activities. See Appendix One for the program guidelines and a sample of the applications.

Calgary Arts Development staff were responsible for reviewing all applications and coded responses in the \$10,000 and under stream against the categories provided in the \$10,000 and over stream to

provide total numbers of reports in each category. Calgary Arts Development staff also reviewed applications for key themes emerging from the text areas of the applications.

## Limitations

There are some limitations to the data and information collected to bear in mind while reading and interpreting the results.

- The organizations who opted to apply to the ERF program do not necessarily constitute a representative sample of all the eligible organizations. When considering the type of organization that chose to apply to the program, the data over-represents Cornerstone organizations and Festivals while Community organizations are under-represented. There is a more consistent representation by discipline, with slight over-representation from music organizations and under-representation of theatre and visual arts organizations in the data. These findings are not surprising, as Cornerstone organizations generate the most private sector revenue out of all the eligible applicants, and festival organizations will be disproportionately affected by the USD exchange rate.
- The application asked for self-reported impacts, but because the intent of the fund was to address in-year losses, the exact dollar value of the loss cannot be substantiated at this time with financial statements.

	Percentage of applicants by type of organization	
	ERF Applicants	All Eligible Applicants
Arts Service	6%	7%
Community	28%	42%
Cornerstone	19%	6%
Festival	15%	9%
Professional	32%	36%

	Percentage of applicants by discipline	
	ERF Applicants	All Eligible Applicants
Dance	11%	10%
Film and Media Arts	2%	6%
Literary Arts	6%	5%
Multidisciplinary	13%	14%
Music	23%	33%
Theatre	30%	22%
Visual Arts	15%	10%

## Findings

The applications revealed a sector that consistently works within their means, but also painted a picture of organizations stretched thin and facing serious cutbacks, shrinkage or threat of closure without meaningful short and long-term interventions to build their resiliency and adaptive capacity.

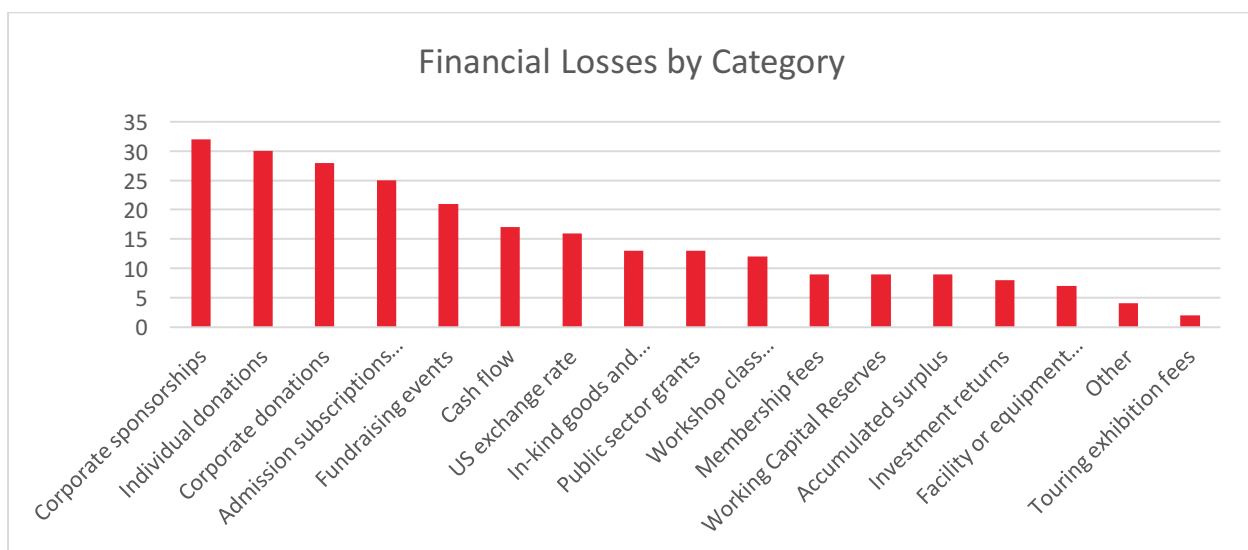
The sector's primary revenues can be divided into three distinct categories:

- Earned Revenue – from sources such as ticket sales, admission fees, workshop fees, etc.
- Contributed Revenue – from corporate sponsors, individual donors, fundraising events, foundations, etc.
- Public Revenue – from public funders such as the Canada Council for the Arts, the Alberta Foundation for the Arts, Calgary Arts Development, etc.

These three sources provide roughly equal contributions to the overall revenues of the sector, with variations between types of organizations. Calgary's professional arts organizations have benefitted from strong ongoing private sector support. Performing arts organizations often have higher earned revenues than museums or galleries, which may rely more heavily on contributed and public funding due to low or free admission prices.

Each application to the ERF fund was reviewed and coded for the type of financial losses reported. Many applicants reported multiple areas of loss, but the most frequently reported losses were in:

- Admissions, subscriptions and ticket sales
- Corporate donations
- Corporate sponsorships
- Individual donations



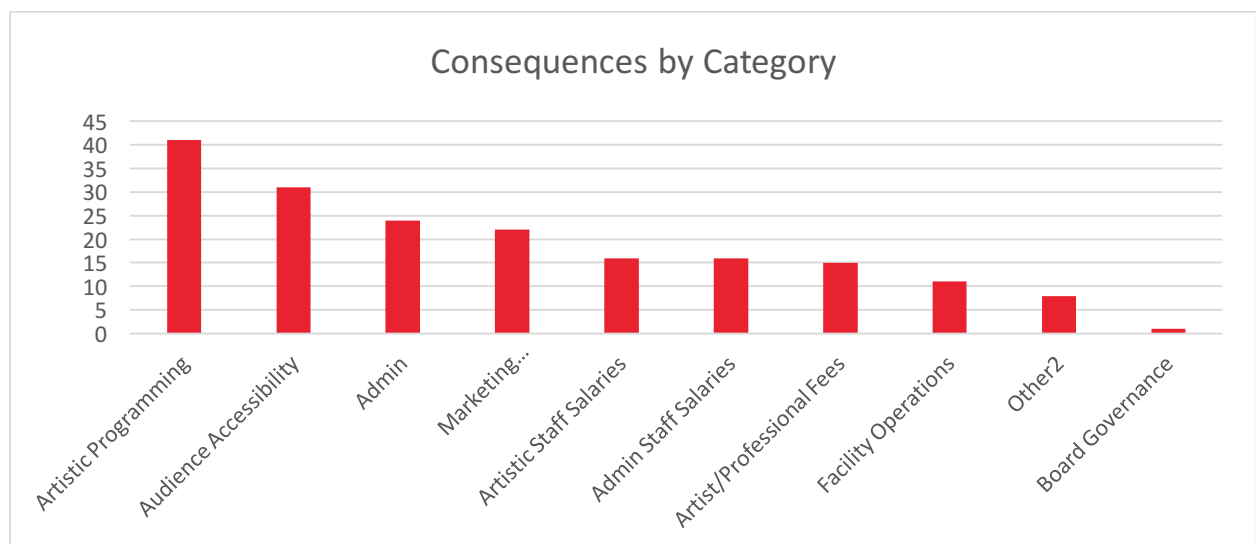
## Financial Loss Observations

- Donors are choosing to give less, ceasing donations entirely, or in some occasions have been reduced because the individual's donation used to be matched through an employee giving program at their company but they have since been laid off
- Sponsors have honored their existing commitments, but many agreements are coming to an end in 2016 and sponsors are not renewing their investments. It is also challenging to attract new sponsors. Applicants report particular difficulty in attracting national sponsors, many of whom do not see Calgary as a growth market in the current circumstances. Smaller arts organizations report greater losses in in-kind goods and services, meaning their hard costs to deliver their programs and activity are increasing.
- Larger organizations and festivals reported greater financial losses due to the USD exchange rate. Most international artists negotiate contracts in USD and the the loss is more acute for 2016, due to the variation in USD from budgeting and booking in 2015 to contract completion in 2016. In planning for the USD exchange rate in future years means organizations will effectively be decreasing their programming budget.
- 53% of applicants reported that revenue from single ticket sales to their activities were down. Notable however, was that the decrease in revenue from single ticket sales did not always constitute a decrease in audience or attendance. In many cases organizations reported that their usual ticket buyers were still attending but choosing to purchase a less expensive ticket and many groups reported that attendance was actually increasing to their free activities. Applicants also reported increased membership at student or low-income rates.
- Youth-serving arts organizations reported unique challenges in this economic downturn. Parental job loss has translated to lower registration numbers in youth arts programs and a substantial increase in requests for bursaries (in some cases the request for bursaries has tripled in 2016). The impacts are not isolated to registrations and revenue from program fees. The downturn also effects fundraising revenue and ticket sales that are usually generated from families of children participating in arts education programming. Volunteer hours are also down as parent's time is focused on job prospects rather than volunteer efforts.
- Many organizations use working capital or credit to withstand cash flow pressures within their fiscal year or to provide a cushion during an unexpected bad year. Several organizations reported that they anticipate using the last of their reserves to make it through 2016, however expectations are that 2017 will prove equally as difficult on earned and contributed revenues. Many organizations are concerned about entering 2017 without their financial safety net.
- Finally, although the main impact of the economic downturn has been on private sector revenue, applicants report an increased vulnerability to fluctuating or stagnant public funding. Organizations cite the recent cuts to the Alberta Foundation for the Arts budget and increased competition for public funding due to losses in the private sector as challenges. Calgary

organizations receiving provincial operating funds are also concerned that losses in earned and contributed revenue will affect the amount of their provincial grant, which is calculated as a percentage of the three-year average of community derived revenue.

## Economic Downturn Consequences

Not-for-profit arts organizations always operate close to the bone, directing the vast majority of their expenditures towards the artistic programming they provide for the benefit of Calgarians. Though some organizations have access to working capital reserves or accumulated surpluses that may soften impacts of the economic downturn, organizations are seeking further cost efficiencies on already lean budgets, meaning that adjusting to a “new normal” may constitute doing drastically less and compromising their ability to provide public value.



- Overwhelming applicants reported that the financial constraints of the economic downturn would effect their artistic programming, including implications on programming choices and eliminating programs, performances and exhibitions. For many organizations it means making safe choices in programming, limiting Calgarians access to the most innovative and cutting-edge creative and artistic work. An unfavorable USD exchange rate also means that Calgarians will not have the benefit of seeing talented international artists, as fees to present such artists are now out of reach for many organizations.
- Many applicants reported that their administrative operations are already operating below capacity. Salaries in the arts fall well below average for the not-for-profit sector, so the only resort is to eliminate positions either through attrition or lay-offs. This places an increased burden and risk on organizations by asking underpaid staff to do more work to make up for those lost positions. This has an indirect effect on artistic programming, when programming

staff are asked to divert their time away from developing programming to other operational functions of the organization.

- Besides the full-time position losses in the sector, programming cost savings are often achieved by hiring fewer artists, shortening artist contracts or lowering artist fees. All of these have negative implications for the local economy and particularly for Calgary artists whose median income was already below the living wage prior to the downturn.
- Accessibility to arts programming is also compromised by the economy. Applicants reporting increased demand for bursaries for youth arts programs or subsidized access to performances are feeling pushed to decrease ticket prices, further exacerbating their financial challenges. Many applicants were forced to cut programs that are not revenue generating, though they may be programs that engage several Calgarians who would otherwise not have access to these organizations. Marketing and communications budgets are also being scaled back, making it difficult to inform Calgarians about opportunities to participate in our arts sector.
- Finally, many applicants reported pausing their plans for strategic development, growth or adaptation. This is extremely risky as it makes for organizations that are not adaptable. These organizations are not resourced to adapt to a new normal in a way that maintains or increases their public value while living within a different means.

## Implications

- The volatile private sector has exacerbated existing financial instability due to public investment that has failed to keep pace with the rate of inflation and cost escalation over the past decade. Without adequate public investment arts organizations are not be able to maintain their public benefit, nor are they resourced to adapt to changing economic and social environments.
- As organizations enter into 2017 with their reserves depleted, hard choices will need to be made concerning programming and outreach. This all serves to diminish the public value of these important agencies.
- As Calgary continues to grow as a destination our arts sector and festival scene is an attractor and must perform well to deliver on Calgary's cultural promise to leisure travelers. Insufficient resources will risk our burgeoning reputation as a cultural destination.
- At a time when Calgary is seeking to retain talent and diversify our economy, the creative industries are an opportunity to capitalize on. This opportunity will be weakened if the arts sector, that provides the creative industries with vital human talent and research and development, is not effectively resourced. The arts in Calgary is poised for growth and transformation, however financial instability makes precarious their capacity for risk, innovation and excellence.