

# Financial and Economic Activity Analysis

As part of the research conducted for this planning process, budget information was requested from cultural organizations in Durham. The Durham Arts Council distributed surveys to cultural organizations in the area and 46 organizations responded.<sup>1</sup> The resulting aggregate information indicates the level of activity in the nonprofit cultural sector.

Organizations were requested to provide actual income and expense figures for operations for FY 2002. This summary therefore does not include capital costs (including costs for facility construction and renovation). It also does not include certain types of costs not easily accounted for, such as arts education costs in schools.

A number of organizations reported receiving funding from the Durham Arts Council. In order to avoid double counting this as additional revenue coming in to Durham, this support was not included in the aggregate revenue analyses. In addition, expenditures by the Arts Council (that include regranting these same funds) were reduced by the same amount.

This analysis only includes nonprofit cultural institutions and public art agencies. It does not include commercial entertainment ventures, artists or other sole proprietors, commercial galleries, or other culturally-related for-profit enterprises.

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<sup>1</sup> While participating organizations do not include all nonprofit cultural organizations in the region, a sufficient number did respond to allow for the subsequent analyses. It is important to keep in mind that given the fact that this analysis does not include all nonprofit cultural organizations, the numbers presented are undoubtedly understated. A list of all responding organizations is provided in the Appendix to this report.

## ***Economic Activity Analysis***

### **Summary**

This analysis indicates that the total economic activity generated by the nonprofit cultural sector in Durham is nearly \$103 million annually.

<b>Figure I: Total Economic Activity</b>	
Operations expenditures	\$41,483,562
Audience ancillary spending	\$61,384,005
<b>Total economic activity</b>	<b>\$102,867,567</b>

There are several important observations about this analysis:

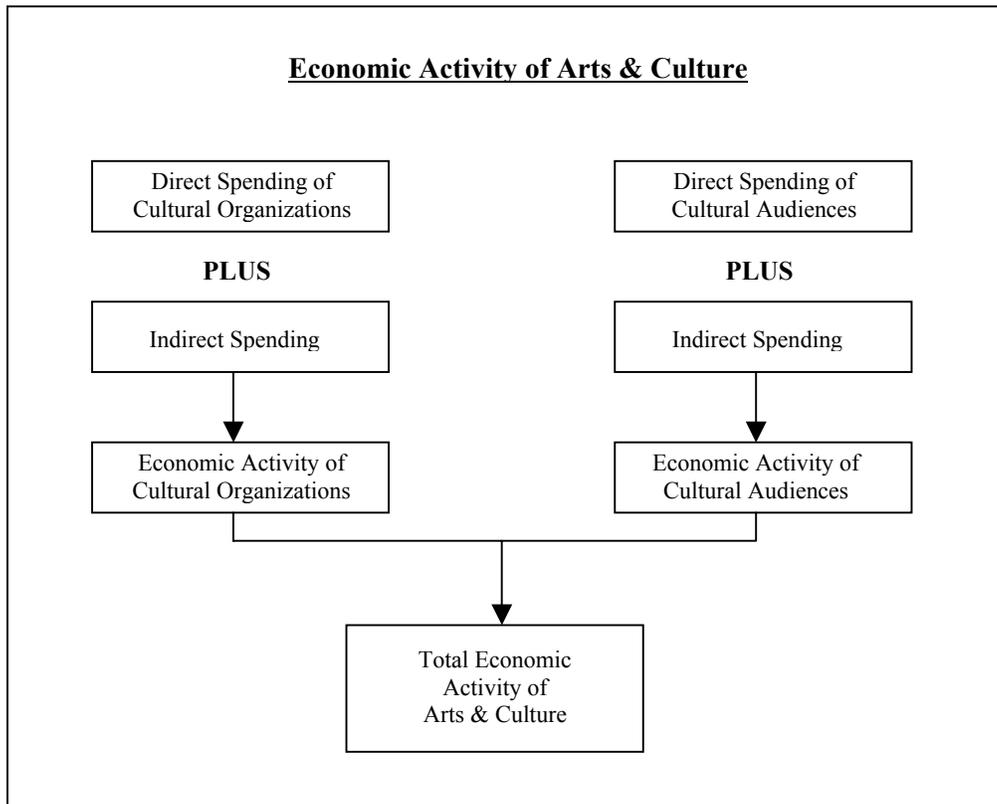
- This figure compares quite favorably with that of Wake County. In a study of economic activity conducted in Wake County in 2000, the overall economic activity was \$88 million.<sup>2</sup>
- The multipliers that are used to estimate the effect of arts dollars throughout the economy (explained in detail below) are quite low because of the condition of the economy. As a result of this, it is reasonable to assume that the existing level of activity will register even higher as the economy recovers.

### **Introduction**

Economic activity of the nonprofit arts and cultural sector includes not only the direct expenditures of nonprofit cultural organizations, but also includes expenditures of audiences.

In addition to the direct expenditures, there are numerous indirect expenditures that are associated with cultural industry spending. These indirect expenditures reflect a “ripple effect” created as dollars are recycled through the economy, for example, as cultural employees spend their dollars on food, clothing, lodging, etc. Generally, the indirect activity is measured using a “multiplier” based on research conducted by the U.S. Department of Commerce (in this case, we have used their RIMS II multipliers). This part of the report examines the total level of economic activity generated by the nonprofit cultural sector based on the data gathered.

<sup>2</sup> *Source: The Economic Impact of the Arts in Wake County*, prepared for the United Arts Council of Raleigh and Wake County by Western States Arts Federation, July 2000.



### Organization Expenditures

Total organizational expenditures by cultural organizations in Durham are over \$32 million in FY 2002, the most recent year for which actual numbers (in contrast to projections) are available for organizations responding to the survey.<sup>3</sup> Using the U.S. Department of Commerce Regional Multiplier (RIMS II) for Durham County (1.2859), the total level of economic activity generated by the expenditure of these funds is over \$41 million.

<sup>3</sup> This number includes estimates for eight organizations that did not submit complete surveys. Accordingly, this number is higher than that reported subsequently in Figure V on page 6.

<b>Figure II: Organizational Expenditures Economic Activity</b>	
Organizational expenditures*	\$32,157,800
RIMS II multiplier	1.29
<b>Total organizational economic activity</b>	<b>\$41,483,562</b>
*Total organizational expenditures for economic activity analyses include estimates of expenditures for eight organizations that did not submit complete surveys. Accordingly, this number does not match that presented in Figure V on page 6.	

### **Audiences and Audience Spending**

Total audience expenditures in Durham are over \$47 million in FY 2002. Organizations participating in the survey reported total audiences of 2,080,650. Ancillary audience spending numbers, which include spending on food and drink, were not gathered as part of the research for this project. However, Americans for the Arts, a national arts service and advocacy organization, recently completed an economic impact study of the nation's nonprofit arts organizations and their audiences, *Arts & Economic Prosperity*. Research for this report showed that audience members spend an average of \$22.87 per person, not including the price of admission. Accordingly, this number is used in these projections. A RIMS II multiplier of 1.2928 was used for these expenditures.

<b>Figure III: Audience Ancillary Spending Economic Activity</b>	
Total audience	2,080,650
Per person audience spending	\$22.87
Total audience spending	\$47,584,500
RIMS II multiplier	1.29
<b>Total audience economic activity</b>	<b>\$61,384,005</b>

### **Financial Analyses**

Financial data was gathered from 46 organizations in the region. Figure IV on the following page provides a description of responding organizations by budget size. This distribution indicates the range of levels of development in organizations in Durham.

**Figure IV: Responding Cultural Organizations by Budget Size**

<i>Budget categories</i>	<i>Number of orgs.</i>	<i>Percent of orgs.</i>	<i>% of aggregate budgets</i>
Less than \$100,000	21	46%	3%
\$100,000-\$299,999	11	24%	5%
\$250,000-\$499,999	3	6%	4%
\$500,000-\$999,999	2	4%	4%
Over \$1 million	9	20%	84%
<b>Total</b>	<b>46</b>	<b>100%</b>	<b>100%</b>

The aggregate of responding cultural organizations' budgets in Durham represents nearly \$31 million in expenditures for FY 2002, the most recent year for which actual data was available for all organizations. Of this, 84%, or nearly \$26 million, is attributable to organizations with budgets of over \$1 million. These same organizations represent only one fifth of those responding to the survey. This is similar to other communities where the consultants have performed this analysis. The majority of dollars are generally concentrated in a few, larger organizations.

This distribution of organizations also indicates a cultural sector skewed toward smaller organizations, with nearly half of all organizations with budgets of under \$100,000. This smaller budget size generally indicates a heavier reliance on volunteers and less developed management systems. The absence in Durham County of a solid core of mid-sized organizations with budget size between \$250,000 and \$1 million is noteworthy.

Figure V on the following page shows the aggregate information on cultural organizations responding to the survey.

<b>Figure V: Durham Aggregate Cultural Budget</b>	
	<b>FY 2002</b>
	<b>Actuals</b>
<i>Earned Revenue</i>	12,008,902
<i>Contributed Revenue</i>	
Private Support - Individuals	1,727,897
Private Support - Corporations	1,039,127
Private Support - Foundations	1,818,260
Public Support - Federal	1,393,327
Public Support - State	1,732,381
Public Support - County	6,551,136
Public Support - City	5,142,988
Public Support - Other	3,000
<i>Total Contributed Support</i>	19,408,117
<b>Total Revenue</b>	<b>31,417,019</b>
<b>Total Operating Expenses</b>	<b>30,891,024</b>
Net Income (Deficit)	525,995

### Sources of Revenue

Organizations were asked to provide more detailed information on sources of revenue, including percent of revenue from earned versus contributed sources. They also provided some further detail on types of contributed revenue, including percentages received from private sector sources such as individuals, corporations, and foundations as well as public sector support from federal, state, and local sources.

Figure VI on the following page provides the aggregate information obtained about these categories of revenue. Note that two of the larger organizations were eliminated from this analysis because they receive unusually high levels of support from either County (for one organization) or City (for another).

<b>Figure VI: Summary/Sources of Revenue w/o two organizations*</b>		
	<b>FY 2002</b>	
	<u>Actuals</u>	
<i>Earned Revenue</i>	10,668,514	54.1%
<i>Contributed Revenue</i>		
Private Support - Individuals	1,601,958	8.1%
Private Support - Corporations	1,039,127	5.3%
Private Support - Foundations	1,755,291	8.9%
Public Support - Federal	1,267,388	6.4%
Public Support - State	1,455,957	7.4%
Public Support - County	757,928	3.8%
Public Support - City	1,168,701	5.9%
Public Support - Other	3,000	0.0%
<i>Total Contributed Support</i>	9,049,349	45.9%
<b>Total Revenue</b>	<b>19,717,863</b>	<b>100%</b>
*Note that total revenue in this table varies from that presented in Figure V on page 6 as two organizations were eliminated from the analysis because they receive exceptionally high levels of support from Durham County (for one) and the City of Durham (for the other).		

**Earned and contributed income:** In this analysis, earned revenue comprises 54% of all revenues during FY 2002. Earned income will generally range, in aggregate, between 40% and 60% and anything over 50% is considered good. In comparison with several communities where the consultants have performed this analysis in the last several years, this percentage of earned revenues is toward the high end.

<b>Figure VII: Comparative Data on Earned Income</b>					
	<i>Durham</i> <i>FY 2002</i>	<i>St. Paul</i> <i>FY 2001</i>	<i>Birmingham</i> <i>FY 2001</i>	<i>Ft. Worth</i> <i>FY 2000</i>	<i>Mobile</i> <i>FY 1999</i>
Total earned income	54%	51%	41%	60%	41%

**Sources of Contributed Support:** Figure VIII on the following page compares sources of contributed support in Durham with those in these same four communities.

	<i>Durham FY 2002</i>	<i>St. Paul FY 2001</i>	<i>Birmingham FY 2001</i>	<i>Ft. Worth FY 2000</i>	<i>Mobile FY 1999</i>
Private – Individuals	8.1%	11.9%	9.9%	12.4%	6.6%
Private – Corporations	5.3%	14.3%	5.9%	4.5%	7.6%
Private – Foundations	8.9%	7.7%	5.7%	19.7%	2.8%
Public Sector	23.5%	12.0%	38.6%	3.4%	42.1%

The balance of support among components of the private sector varies greatly in most communities, depending on their unique characteristics. It is worth noting that individual and corporate support are both low compared to other communities. Foundation support is comparatively high. Public sector support (which in this analysis includes state and federal dollars) requires careful examination. While it is high compared to Saint Paul or Fort Worth, it is considerably lower than Birmingham and Mobile. The pattern on the state level of funding in North Carolina resembles that of Alabama and thus the comparison is more appropriately made with those communities, which show substantially higher support.

**Local Public Sector Support:** The level of local government support (i.e., from the City of Durham and Durham County) for operations of cultural organizations represents just under 10%. Again, the salient comparison here is with the southern communities of Birmingham and Mobile, both of which register significantly higher local government support.

	<i>Durham FY 2002</i>	<i>St. Paul FY 2001</i>	<i>Birmingham FY 2001</i>	<i>Ft. Worth FY 2000</i>	<i>Mobile FY 1999</i>
% of revenue from local govt.	9.7%	2.1%	19.0%	2.3%	18.0%