



REPORT RELEASE

6200 Second Ave, Unit 003
Detroit, MI 48202
culturesource.org

Contact: Omari Rush, Executive Director
Email: wrush@culturesource.org
Phone: (313) 831-1151

CAPITALIZATION NEEDS OF ARTS & CULTURE ORGANIZATIONS IN SOUTHEAST MICHIGAN

On Wednesday, March 11, 2020, CultureSource executive director Omari Rush had a phone conversation with WolfBrown principal Alan Brown about the need to understand cultural sector impacts of COVID-19, which that day the World Health Organization had labeled a pandemic.

Within two weeks, CultureSource had received a rapid-response grant from the Community Foundation for Southeast Michigan to commission studies from WolfBrown that would support data-driven decision-making at organization and systems levels.

As Southeast Michigan's arts and culture coalition, CultureSource has felt an imperative to quickly mobilize knowledge, financial, and social capital to help our sector navigate the chaos and persistent ambiguity of the COVID-19 crisis environment. The enclosed report wonderfully supports those aims, thanks in part to the contributing executives of 46 organizations who were candid, responsive, and generous throughout this research process.

As you finish reading the report, we expect you'll ask, How are organizations doing now? given compounding impacts of COVID-19 and broadening awareness of institutional and systemic racism as a pandemic.

Please be in touch with the CultureSource team for a real-time answer to that question as well as for information about how you can help. We also hope to produce future editions of this report given that the story of our sector's resiliency is still unfolding.



Capitalization Needs of Arts & Cultural Organizations in Southeast Michigan

Findings from April 2020 Interviews Conducted in Response to the COVID-19 Crisis

Report submitted to
CultureSource

Prepared by
WolfBrown

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918 W. Boston Blvd., Detroit, MI 48202
tel 415.796.3060 wolfbrown.com

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SECTION 1: Introduction & Methodology

This report was written at an extraordinary moment in history. We are experiencing a pandemic the likes of which hasn't been seen for a century or more, and an economic collapse the scale of which cannot yet be fully assessed, but already exceeds any in recent memory. In the midst of all this, videos of unarmed black men being murdered by law enforcement officials have led to large scale protests calling attention to institutionalized racism and police brutality, and have provoked a public reckoning with our nation's long and ongoing history of abusing and exploiting people of color.

The fluidity of these developments requires us to make a significant caveat about this report, which is that it was out of date the moment it was finished. Epidemiological conditions are changing, economic conditions are changing, and social conditions are changing in ways that are likely to significantly re-shape the arts and culture sector, not only in terms of how much demand to expect post-COVID, but also in terms of the roles that arts and cultural institutions can and should play in our society moving forward.

This report should therefore be viewed as a snapshot of the particular moment in time when we conducted these interviews in the middle of April, 2020. If we were to speak with the same set of interviewees now, we would undoubtedly hear very different stories.

Introduction

The COVID-19 pandemic has upended social, cultural, and economic life in the US and around the world on an unprecedented scale, and even as some states move to gradually reopen public life, the end of the crisis is not yet in view. By virtue of the fact that many cultural practices revolve around bringing people together for shared experiences, the cultural sector is among the hardest hit industries along with travel and hospitality.¹ To make matters worse, arts and culture are not being treated as essential services, so it is likely that cultural venues will remain shuttered and subject to tighter restrictions—while also receiving less government stimulus to restore operations—than industries deemed more central to the functioning of society.

¹<https://www.nytimes.com/interactive/2020/04/11/business/economy/coronavirus-us-economy-spending.html>



When restrictions were placed on public gatherings and eventually superseded by stay-at-home orders, the initial response from many cultural organizations was to continue operations in ways that mirrored their usual programs as closely as possible, following the old adage “The show must go on!” The response from arts and cultural funders was similarly to distribute emergency grants to allow organizations to carry on as usual as best they could. As the weeks dragged on and furloughs and layoffs became unavoidable for many, the realization set in that business wouldn’t return to normal after a month or two, that simply moving existing programs online can’t substitute for live experiences in the long run, and that careful thought will need to be given to how and when to reopen.

CultureSource, in partnership with the Community Foundation for Southeast Michigan, was quick to establish the COVID-19 Arts and Creative Community Assistance Fund in order to offer support to arts and culture organizations in the seven-county region as they navigate the crisis spurred by the spread of COVID-19. The following foundations contributed to the fund:

- Community Foundation for Southeast Michigan
- DeRoy Testamentary Foundation
- Max M. & Marjorie S. Fisher Foundation
- Ford Foundation
- John S. and James L. Knight Foundation
- The Kresge Foundation
- Leinweber Foundation
- Peck Foundation
- William Davidson Foundation

The fund announced the first deployment of resources (\$500,000) through the *Relief and Resiliency Grant Program*, which allowed cultural organizations of all sizes to apply for a \$10,000 grant. The program received 229 applications and checks were mailed to successful applicants within three weeks of the application due date.

At the same time as this emergency relief fund was set up, CultureSource realized the need for a robust understanding of the capitalization needs in the sector and a longer-term strategy for sustaining and rebuilding the cultural ecosystem of Southeast Michigan. With funding from the Community Foundation of Southeast Michigan, CultureSource commissioned the arts research firm WolfBrown to conduct a series of interviews with a substantial cross-section of cultural organizations in the region. Unlike several surveys launched around the same time that aimed to document the amount of revenue that was lost as a result of the pandemic and the extent of financial need among arts nonprofits, the objective of this study was to gain a nuanced understanding of local organizations’ current situations, their prospects for the future, and the types of support that would be most beneficial.

Given the diversity of cultural forms and organizational models within Southeast Michigan’s cultural sector, it was clear that no single funding vehicle would



adequately address the needs of all organizations, so the goal was to identify the pools of capital that would methodically and equitably address the diverse needs within this heterogeneous sector.

This report summarizes the findings from 46 interviews with the leaders of arts and cultural organizations in Southeast Michigan (listed in Appendix 1) and proposes an investment framework to help the cultural sector through this crisis and support it in rebuilding afterwards.

Methodology

CultureSource emailed the heads of 71 cultural organizations, representing a diverse cross-section of Southeast Michigan’s cultural landscape, to invite their participation in a one-hour interview about their current situation and capitalization needs. Forty-six organizations responded to the invitation and completed the interviews.

Table 1 provides an overview of the sample by type, budget size, and county. Nearly all of the largest cultural institutions in Southeast Michigan cooperated with the study.

OVERVIEW OF SAMPLE	Number of Orgs Interviewed (Total=46)	% of Orgs Interviewed
Organization Type		
Association	4	9%
Community Art Center	9	20%
Creative Youth Development	6	13%
Museum	10	22%
Presenting Organization	8	17%
Producing Organization	9	20%
Annual Budget		
Over \$20 mill	4	9%
\$10 mill - \$20 mill	1	2%
\$5 mill - \$10 mill	3	7%
\$2 mill - \$5 mill	7	15%
\$1 mill - \$2 mill	9	20%
\$750k - \$1 mill	3	7%
\$250k - \$750k	9	20%
\$100k - \$250k	6	13%
Under \$100k	4	9%
County		
Macomb	2	4%
Oakland	6	13%
St. Claire	1	2%
Washtenaw	7	15%
Wayne	30	65%

Table 1: Overview of Sample



Interviewees were also invited to submit documents that would further illuminate their organization's situation (e.g., financial statements, forecasts, minutes of board meetings, copies of grant applications). We also reviewed 2019 financial profiles associated with most of our interviewees. These profiles, created by the Boston-based consulting firm TDC for a consortium of local area funders, offered helpful information about the organizations' pre-COVID financial condition.

The interviews were conducted by telephone by a team of four WolfBrown researchers between April 10 and April 22, 2020 using a common protocol (see Appendix 2), which was shared with interviewees in advance. The researchers collaboratively identified patterns in their research findings, which form the basis of this report.

Our promise of confidentiality to interviewees resulted in many deeply candid discussions. Because of this, however, we avoid citing specific organizations in this report except in several cases where we've received specific permission. In general, we refer instead to types of organizations or cite organizations anonymously without compromising identity.

Overview: How are cultural organizations in Southeast Michigan doing?

Overall, we were impressed by the resilience of Southeast Michigan's cultural ecosystem and the adaptiveness displayed by many of the organizations we consulted. When we conducted our interviews cultural venues had been closed for just over a month. At that point in time, only a few of the organizations we interviewed were facing acute financial difficulties; however, some will almost certainly face far more serious problems if they are unable to reopen in the summer or fall months, or if annual fundraisers need to be cancelled.

Allowing organization leaders to tell their stories using a qualitative research methodology (i.e., structured topical interviews) yielded rich data – far beyond what is possible to glean from surveys. We heard many inspiring stories of resilience and innovation, and many heartbreaking stories of cancellations and layoffs. The overall impression was one of a sector functioning at a very high level of proficiency, creativity and adaptation under extraordinarily challenging circumstances.

For the purposes of providing an overall summary of the conditions of the 46 organizations we interviewed – and, by extension, the entire CultureSource membership, we categorized each organization into one of the following four typologies characterizing organizations' overall likelihood of surviving and re-emerging from the COVID crisis (in descending order of risk/vulnerability). These are subjective and necessarily reductive adjudications, and reflect the situation as of late April 2020. If we were to re-interview these organizations today, or several months from now, we would expect to see significant movement across categories.



1. **Facing Insolvency.** These organizations are likely to run out of cash within a three-month period, have dim prospects for accessing additional cash, and will have difficulty hibernating.
2. **Entering Survival Mode.** These organizations lack more than several months of cash, but have some ability to generate revenues or access more cash on an emergency basis. They are quickly cutting costs in order to achieve a new baseline equilibrium (e.g., some variation on “hibernation”) because they have no other options. Some were unwilling to cut costs early in the crisis, and therefore missed an opportunity to conserve cash. The jury is out as to how or when they’ll be able to resume programming or slip further towards insolvency.
3. **Conditionally Secure.** These organizations have more than several months of working cash and real prospects for accessing additional cash – depending on how things go. For example, some are banking on a successful fundraising campaign, or a successful request to a donor to unrestrict an endowment gift, or the willingness of board members to authorize a line of credit secured against endowment funds. They may be able to weather the crisis, or they may be forced into survival mode depending on how long the crisis persists.
4. **Secure.** These organizations have sufficient access to cash to wait out the COVID crisis either with or without hibernating. Some have taken deep cuts. Their cash might take the form of cash reserves, board-designated endowment funds, endowment earnings, or capital campaign proceeds released from restrictions.

As illustrated in Chart 1, below, more organizations than not were **Secure** or **Conditionally Secure**, as of April 2020. Those who were **Secure** do not anticipate needing any additional capital in the next twelve to eighteen months, but may need to replenish their reserves in the years following emergence from the crisis. (Definitions of types of capital can be found in Section 3.) Some of those in the **Conditionally Secure** cohort would benefit from Start-Up Capital or Risk Capital, or, if they are unable to open after another six to nine months, Relief Capital.

Only several organizations we interviewed were **Facing Insolvency** in the short term. Relief Capital will not solve their problems; they are in need of Transformation Capital, but may not see it. Many more, however, were **Entering Survival Mode** and might face more serious problems in four to six months if conditions don’t change or they are not able to successfully hibernate for an extended period of time. These organizations are most in need of Relief Capital, perhaps several waves of it. Some might eventually need Transformation Capital, while others will need Start-Up Capital.



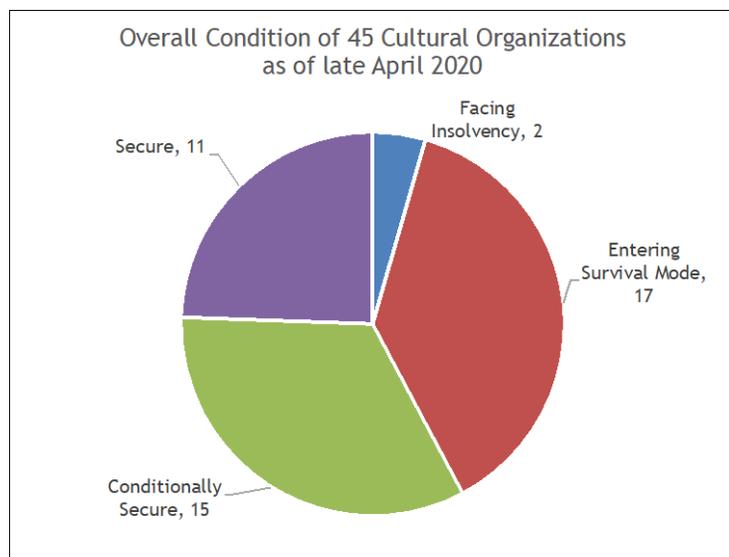


Chart 1: Overall Condition of 45 Cultural Organizations as of late April 2020 (note that one of the 46 interviewees did not complete the interview and could not be categorized)

Differing Assumptions and Approaches to Navigating the Crisis

In general, the cultural leaders we consulted seem to hold a wide range of assumptions about the challenges they face:

- Differing views of the timeline for which they should be planning
- Differing appetite for risk-taking in terms of when to reopen
- Differing assumptions about the urgency and necessity of cost cutting, particularly staff layoffs
- Differing understandings of the COVID crisis as a temporary disruption to be forgotten as soon as possible, or a springboard for paradigmatic change
- Differing willingness/capacity to contemplate “worst case scenarios”

One thing we were struck by is the disparity between two different approaches to planning during the health crisis. Some organizational leaders made very calculated decisions about staff furloughs and layoffs based on factors such as how much money laid off staff members would be able to receive by filing for unemployment benefits, how long they could be supported on a Payroll Protection Program (PPP) grant, how much staff would earn if their hours were reduced, and how much money the organization will need to relaunch operations at a future time. These managers focused on short-term financial outcomes (both for their organizations and their employees) to secure their long-term ability to thrive and achieve their missions.

For others, the question of whether or not to lay off staff members was seen primarily as a test of their organization’s moral integrity. Some of these organizations, particularly ones built around artistic ensembles, are driven by their commitment to their staff and artists. Whether laid off artists would receive more or less money on unemployment is inconsequential for organizations that feel that



layoffs would suggest that their ensemble members are dispensable and easily replaceable. Another set of organizations are driven by a sense of commitment to the communities they serve. Laying off staff and scaling back operations would give the impression that the organizations have given up representing and fighting for the communities they serve. The mindset of several of these organizations is that closing down, even temporarily, would carry the symbolic weight of defeat in a longer battle against gentrification, racism, and aesthetic marginalization.

For both the artistically and community-oriented organizations, there is also an economic calculus at play: destabilizing the artistic core of an organization or losing the support of philanthropically active community members may have negative financial impacts in the long-term that far outweigh the costs of keeping staff on the payroll during a temporary downturn. These organizations thus focus on fulfilling their core commitments in the short term (even at the risk of depleting cash on a shorter time horizon) in the belief that this will ultimately benefit their long-term prospects.

While we don't see one side of the "mission first" vs. "cash flow first" divide as inherently better than the other, we mention it here because our interviews suggest that it affects equity outcomes. Based on our interviews, it seems that organizations serving communities of color are more likely to view preemptive measures to stabilize cash-flow as a lapse in their commitment to their mission and communities, which in some ways constrains their ability to respond to the current crisis. In the short-term, there may be a steep price to pay for adhering to their values, but, as noted above, there may be long-term payoffs for those commitments.

It is important that funders are aware of these different mindsets as it may affect what kinds of support are needed, and when. Moreover, understanding these different positions may help funders understand the strategic decisions that grantees make, even if they seem counterintuitive to the funder (and what seems intuitive may depend on the funder's own values).



SECTION 2: Sources of Strength and Concern in the Cultural Ecosystem's Response to the Crisis

Sources of Strength

Government support does the heavy lifting

While the process of applying for government relief funds has been extremely frustrating for some organizations, it is clear that the government support is playing an important role in sustaining the arts and cultural ecology at the moment. Most notably, 9 of the 46 organizations (20%) had already received support through the Paycheck Protection Program (PPP) by the time we spoke with them in mid-April, securing their payroll for 2.5 months. An additional 22 organization (48%) had applied but weren't yet approved when we interviewed them, and more were still planning to apply.

While more organizations may be supported through the PPP as additional funding becomes available, it is noteworthy that larger organizations seem to have had quicker to access the government funding. Almost half of the eligible organizations with budgets over \$2 million dollars had secured PPP funding by the time we spoke with them, whereas only two of the 30 organizations with smaller budgets had received support. We can only speculate about the reasons for this: having more dedicated fundraising staff, prior relationships with financial institutions, and both the size and composition of boards may all play a role. In isolated cases we heard that pre-existing relationships between board members and local banks had a considerable impact on the accessibility of the PPP funds.

Despite the national PPP program funded through the CARES Act, several of the organizations we consulted have either laid off or reduced hours or compensation for sizable portions of their staff. In these instances unemployment benefits are providing an important source of short-term support for furloughed and laid-off employees, who are expected to return to their jobs once organizations are able to reopen to the public. In some cases, the federal supplement of \$600 to the monthly unemployment payments played an important role in organizations' decisions to lay off employees rather than keep them on payroll, even if a PPP loan could be secured. Since the first round of PPP loans awarded in April were initially only expected to cover payroll expenses through June, some saw temporarily adding staff members to the ranks of the unemployed as a more prudent solution that preserves financial resources that will be needed to restart in fall at full strength. The parameters for the PPP loans have changed somewhat since then (and continue to be revised), but there's a growing concern that PPP funds may only delay inevitable layoffs.

Michigan's Work Share program provides an intermediate solution by allowing organizations to keep their staff on payroll at reduced hours, while giving their



employees access to unemployment benefits to soften the financial blow. While only a few organizations are taking advantage of this option, it is a critical piece of the financial calculus in those instances. It's possible that more organizations could benefit from the Work Share program if they were aware of it.

While funds dedicated to arts and cultural organizations through the Federal CARES Act had not yet arrived at the time we conducted our interviews, the Michigan Council for Arts and Cultural Affairs has been charged with distributing almost \$600,000 in Federal aid (\$504,000 received directly from the NEA, and another \$84,000 passed through to MCACA by Arts Midwest).

In sum, a large majority of the organizations we spoke with are drawing on federal and state funds for temporary relief in one form or another, amounting to tens of millions of dollars – an amount well beyond the capacity of the private foundations.

Flexibility on existing foundation grants offers meaningful relief

Several interviewees noted with great appreciation that some philanthropic foundations had lifted restrictions on grants that were designated for specific projects even before they had sought out such accommodations. Similarly, some foundations expedited the payment of approved grants or added an additional percentage of general operating support to every grant they pay out in order the help recipients manage their short-term cash flow. These efforts have been a godsend for some organizations, and have given them more flexibility in navigating the current crisis. Perhaps just as importantly, these actions by funders have served as an important source of psychological support, assuring grant recipients that they are not facing this crisis alone.

Good capitalization practices pay off

Not surprisingly, organizations that were undercapitalized before the crisis are the ones that are most threatened now, and ones that were able to build up cash reserves have the greatest flexibility in charting their response. In 2019, TDC assessed 61 arts organizations in Wayne, Oakland, Macomb, and Washtenaw Counties as part of the Detroit Arts Support Financial Analysis, and where there was overlap between their sample and our list of interviewees, the organizations that TDC considered to be in the lowest tier of capitalization (“Recovery”) are among those in most immediate need of support now. On the positive side, the efforts of funders who have encouraged and supported good capitalization practices are paying off.

Based on our current assessment (which is more qualitative than TDC’s financial analysis) few of the organizations we interviewed are at risk of running out of cash in the next three months (and that’s not accounting for the PPP). More are likely to face difficult decisions later in the summer and into the fall, if they are not able to start earning revenues. Others have cash reserves or board-designated endowment funds that they can draw on, or were confident they’d be successful in getting donors to unrestrict an endowment gift, or were in the process of raising funds for capital improvements when COVID hit and will be able to convert at least a portion of the capital funds to operating cash, where permitted by the donors.



Short-term adaptations that increase long-term resiliency

While many of the organizations we interviewed have been quick to adapt their programming so they can continue to provide cultural experiences while abiding by social distancing guidelines, few have been able to do so in a manner that supports their bottom line. There are, however, some notable exceptions where the crisis expedited the implementation of existing plans or prompted new ideas that are helping organizations weather the crisis, and may indeed become a new pillar in the organization's revenue model even afterwards.

One such organization, the Ann Arbor Film Festival, moved its entire annual six-day festival online with less than two weeks' notice. Although the films were streamed for free online, the savings on venue rentals and other event costs were significant enough to offset the loss of ticket revenue. While not all of the live events that would typically be held as part of the festival could be migrated online, online streaming permitted the organizers to show a larger number of the award films than would typically be screened in a theatre, and the response to the online festival was overwhelmingly positive. Moreover, the 16,000 live streams from 104 different countries may make the event more appealing to sponsors in the future. While there are no plans to switch to an online-only format in the future, the experiment demonstrated that an online film festival is a viable model and highlighted the possibilities to broaden in-person festivals with access to digital content.

While performances that have been streamed online during the venue closures have generally been offered for free or with a donation request, some organizations that earn revenue by offering classes have been able to preserve a significant portion of that income by moving their classes online. One organization was able to transition to remote classes without losing a single day of instruction, because they already had a streaming platform, had trained instructors on teaching online, and had conducted some pilots before the epidemic hit. The accelerated implementation of a programmatic innovation that was already being developed has allowed the organization to maintain 90% of its teaching revenue despite the shutdown.

A few of the organizations we interviewed have developed (or are in the process of developing) programs to support art-making at home by providing art supply kits. In most cases this was conceived as a way of supporting families in need while they are sheltering in place, but one also offers its art supply kits for sale to anyone who wants one. This model allows the organization to extend its mission, but may also provide an additional source of revenue going forward.

Living Arts, a creative youth development organization, stands out for its comprehensive and strategic approach towards adapting to a new reality in which in-person interactions are limited, and may continue to be so for an extended time. Their analysis started with an assessment of which of their existing strategic priorities and activities are still relevant and what new priorities emerge if arts engagement is limited to online and at-home experiences. They then established goals (e.g., prioritizing socio-emotional wellbeing, encouraging intergenerational activities, etc.) and established criteria to guide the development and selection of online materials



(e.g., ensuring there is age-appropriate content for children from 0 to 18, striking a balance between easily accessible and meaningful content, giving caregivers easy instructions to guide at-home projects and engage children in conversations). This investment in strategic planning for remote support of children's creativity is expected to prove valuable well beyond the current crisis.

“Hibernation” emerges as a means of avoiding insolvency

Small, primarily volunteer-based organizations have the benefit of having low overhead costs. For some organizations this can be a source of extraordinary resilience, allowing what at first glance might look like fragile organizations to persist over decades. Beyond just closing their doors to the public, such organizations can quickly scale down operations and essentially “hibernate” until the conditions improve to the extent that they can reemerge.

We heard from several small arts organizations that are in or approaching such a state of hibernation – which we define as a diminished state of equilibrium where cash inflow (from any reliable source) covers cash expenses for an indefinite period of time. This may well be an effective strategy for smaller organizations to ride out the current crisis. Some larger organizations might also be well-served to consider what “hibernation” looks like, as they may have few other choices if closures persist into the fall months and earned revenues are not on the horizon. For example, we encountered one mid-sized organization (annual budget between two and five million dollars) that is considering cutting almost all staff and closing for 12 to 18 months as a last resort. This organization fully owns its building, so once staff have been laid off its fixed costs would be quite limited during a period of hibernation.

It's also clear that such a liminal existence can be demoralizing and emotionally draining, and that some patrons and members may never come back after falling “out of the habit” of attending regularly.

Much remains to be learned about how organizations manage their way down to a state of hibernation, or how they can sow the seeds of re-generation whilst in this state, or how and under what conditions they can emerge successfully. Although we didn't explore this topic in depth with many of our interviewees, some see hibernation as a last ditch alternative to insolvency – a last resort. For specific organizations, however, we believe that hibernation could represent a strategic move to “press the reset button” on a chronically undercapitalized or mis-capitalized organization that really does need a financial overhaul.

Perhaps one reason why more organizations don't see this as a viable alternative is because they fear losing support from donors, corporate partners, and foundation funders, when, in fact, some of these funders might welcome a strategic suspension of activity in order to focus on building a stronger business model and the capital to withstand future fluctuations and vulnerabilities to crises such as COVID.

From a capitalization perspective, organizations are likely to require some amount of capital just to achieve a state of hibernation – preserving assets, outplacing staff,



assuring that facilities are secured, etc. We believe this would be a good use of Relief Capital (see below). And, most surely, emerging from hibernation will also require capital. In fact the whole point of hibernation is allowing time to re-configure and strengthen the balance sheet – so as not to emerge until sufficient capital is available to set the organization on a more secure financial footing.

Sources of Concern

Limited ability to plan due to high uncertainty

With estimates for the duration of shelter-in-place orders and plans for reopening the economy changing almost daily, it is extremely difficult for arts managers – or any business or community leaders – to make informed plans. In some cases, the level of uncertainty is almost immobilizing. Several groups are unable to think past June 30 or July 31. They'll survive, albeit in a weakened state, if allowed to open beginning in September, but they haven't even contemplated what will happen if facilities are not allowed to open in the fall, or if a second wave of infection forces them to close back down after opening.

Some interviewees reported that the uncertainty about what will happen in the fall is worse than a continuation of the current closures. If the venues are going to be closed in fall, it would be preferable for officials to announce that soon and decisively, rather than delaying, equivocating, or permitting venues to reopen under conditions that are so strict that they are prohibitive in practice. For organizations that work in schools, uncertainty about whether schools will reopen and what restrictions may apply once students return is also a major barrier to effective planning.

While appreciated, the patchwork of government relief funds and small emergency grants do little to allay the uncertainty that arts managers face. It's unclear, for instance, whether the ability to keep staff members employed through mid-June with the help of PPP loans simply postpones inevitable layoffs. Organizations are grasping for straws, and those who secure government support or an emergency grant may live to see another day, but other than for the smallest organizations, the amounts being offered aren't sufficient to support strategic decision-making. A small emergency grant, for instance, might provide a temporary psychological boost and allow a midsized organization to cover payroll for another few weeks, but it doesn't provide a basis for them to decide to remain closed this fall and go into hibernation for an indefinite period of time, with the knowledge that they'll have sufficient capital to restart once conditions have improved.

Insufficient or non-existent reserves

Approximately six weeks into the Governor's stay-at-home order, a few of the organizations we interviewed were already facing cash flow problems. These organizations had insufficient cash reserves at the onset of the crisis, or none at all. Several had fallen into the bad practice of using cash from subscription sales for



upcoming seasons as cash to cover previous season's expenses, and now are scrambling to find the cash to cover refunds. Some organizations without reserves expressed confidence that they'd be able to weather the storm one way or another (e.g., "our board has rescued us before...") but pinned their hopes on special fundraising campaigns or membership drives that may or may not generate the cash they need to survive without drastic cuts.

One might argue that there is nothing wrong with financially weak organizations ceasing operations and that such closures might actually contribute to the overall health of the larger cultural ecosystem. What is distressing, however, is that our small sample of interviews in Southeast Michigan seems to confirm what other researchers have found at the national level: There is an inequitable distribution of capital reserves and endowments in which organizations whose audiences primarily consist of people of color are disadvantaged.²

Long-term vulnerability resulting from depleted reserves

Even among the organizations that had adequate reserves at the outset of the crisis and expect to be able to weather the crisis at least through the end of 2020 there is the realization that they will be significantly more vulnerable when they resume their usual operations. Having spent down their reserves even a relatively minor set back such as a 15% decrease in attendance or the loss of one or two foundation grants could quickly bring them into dire straits. Several interviewees also spoke with anguish about the demoralizing effect of seeing the hard-won reserves they had managed to build up since the 2007 recession, which were finally giving them a modicum of security and the ability to dream about the future, vanish, and having to face the reality of starting all over again.

Vulnerability arising from high fixed costs

The cultural sector of Southeast Michigan is extremely diverse, and we spoke with the directors of organizations of various types, sizes, and business models. For structural reasons, some organizations have high fixed costs, and there is little they can do to manage down those costs. These organizations might have high facility costs, high lease payments, or essential staff that cannot be cut without jeopardizing collections. Even after laying off half of its workforce, reducing the hours of the remaining employees, and cutting executive pay by a third, one organization we consulted faces a monthly shortfall of between \$300,000 and \$400,000. For these organizations, "hibernating" isn't an option. They will require significant short-term support and, in the longer term, a wholesale re-thinking of their capitalization structure in order to be better positioned for a future crisis.

² Helicon Collaborative, *Not Just Money: Equity Issues in Cultural Philanthropy*, 2017. Available at: <https://www.giarts.org/sites/default/files/not-just-money-equity-issues-cultural-philanthropy.pdf>



Diminished artistic and institutional capacity

Besides the financial challenges that many organizations are facing, the institutional and artistic capacities of Southeast Michigan's cultural organizations will be threatened by extended closures. If staff furloughs and layoffs persist, some proportion of the cultural workforce will move on to other opportunities, requiring organizations to recruit and train new team members when they reopen. The loss of institutional knowledge will require additional financial investments to rebuild.

Perhaps even more crucially, producing organizations that are built around a fixed core of artistic collaborators – an artistic ensemble, orchestra, or company – will see their artistic capacity severely impacted if artists are let go and lost to other opportunities. Once lost, it could take years to rebuild equivalent artistic capacities in Southeast Michigan. This is, perhaps, the greatest hidden cost of the COVID crisis – the loss of artistic capacity – exhibitions never mounted, plays never produced, ensembles disbanded, artists who retire early or abandon their creative practice, etc. The losses that are initially experienced at the local level will eventually filter up and erode national arts ecosystems, as artist development pipelines, touring exhibitions, the development of new works are interrupted. Numerous funding initiatives around the country aim to provide temporary support to artists, but the amount of capital required to keep artists and contract workers in place – whole companies and ensembles, whole rosters of teaching artists, and stagehands for that matter – during a prolonged shut down would be staggering and beyond the capability of private philanthropy.

Collateral damage to contract workers

Interviewees were asked to comment on the effects of the COVID crises on contract (non-employee) workers. Across the 46 interviews, 16 reported significant negative impacts on contractors, and another five reported a moderate level of negative impact. The remaining organizations don't use contractors at any appreciable level. The types of contractors most likely to have lost work include: teaching artists and faculty/instructors, local musicians and other performers, visual artists who are unable to show their work, docents/guides, and stagehands and other technical/production workers. We did not tally the foregone revenue resulting from COVID-related closures and cancellations, but it is easy to see the a number in the millions of dollars sector-wide.

In several cases, organizations were extremely proactive in assisting hourly workers, both employees and non-employee workers) in accessing unemployment benefits. One organization made a voluntary payment to their local IATSE union as a gesture of good faith.

Speculation on earned revenue

Not surprisingly, organizations that receive most of their income from admissions fees or ticket sales are being affected most severely, at least in the initial phase of the crisis, as a result of the closures. Organizations that rely heavily on foundation



funding, public investment, or private donors may face challenges down the road, but they aren't experiencing the same immediate cash flow problems.

There are wide discrepancies in the expectations for the sustained resumption of public programming and what demand for cultural events will be upon reopening. Some organizations are banking on ticket sales for the coming season as a source of cash, although such revenue really constitutes a contingent liability if they are unable to deliver on programming plans. Others are taking a more pessimistic view on when they will be able to reopen, with one museum making contingency plans for the eventuality that they may not be able to reopen for eighteen months.

For those who rely heavily on admissions income there's also great concern about what the public demand for cultural events and experiences will be after venues are able to reopen. A drop in demand that lasts two or three years, or possibly even longer, may be more detrimental to their organizational sustainability than the initial closure (where the lack of revenue can at least partially be offset by savings associated with reduced programming).

Sponsorships and contributed income may be reduced as a delayed effect of the crisis

While some foundations and private donors have stepped up their support to help organizations weather the current crisis, others have done the opposite. We heard of instances in which foundations only paid out 30% of grants that had already been approved, because the funded projects wouldn't be completed as planned. Corporate sponsorships are also being withdrawn from arts organizations as companies reconsider their approach to corporate responsibility in light of the current crisis.

There's a fear that these retrenchments may just be the tip of the iceberg. Private foundations, individual donors, and corporate sponsors may decide to shift funding away from the arts in favor of basic human services. In addition, organizations that receive municipal support or contract with school districts and other agencies fear that arts programs may be among the first to be defunded as the municipalities adopt austerity measures. What's more, some smaller cultural organizations are concerned that whatever funds remain available to the arts will be pooled into rescue packages for institutions that are "too big to fail," further limiting the resources available to the rest of the ecosystem.



SECTION 3

Investment Framework

The diversity of Southeast Michigan’s cultural sector has been on clear display throughout our interviews. The organizations we consulted have different operating models, they’re at different places in terms of their financial resources and their organizational capacities, and, as a result, the crisis is affecting them in different ways. It’s clear that no single relief effort can adequately address the diverse needs of this heterogeneous group of organizations.

There are several factors that influence how organizations are being affected by the crisis: the availability of financial reserves, the operating model (e.g., producing, presenting, exhibiting, or teaching), the fixed monthly costs, ownership of real estate, and the overall size of the organization all play a significant role. Yet, while general patterns emerge, so that one may say, for instance, that producing organizations generally will require more upfront investment to restart their operations than presenting organizations, it would nonetheless be reductive to assume that all producers need one kind of support and all presenters another.

We have therefore defined four types or “pools” of capital that will be needed to sustain cultural organizations through the current phase of capacity restrictions and health safety guidelines, and help them regain their footing after operations are able to resume:

- **Relief Capital** – funds to assist organizations in covering core costs, or in transitioning to a state of hibernation, or to maintain core programs that are deemed essential to community wellness during the crisis
- **Start-Up Capital** – funds to support a coherent plan for programmatic re-entry
- **Risk Capital** – funds to support planning and experimentation with promising new business practices occasioned by the crisis
- **Transformation Capital** – funds for end-of-lifecycle transitions (e.g., mergers, consolidations), or to preserve or protect cultural assets in the event of insolvency

Creating these various pools of capital upfront—and, ideally, identifying funding for them through coordinated philanthropic efforts of public and private funders, individuals and businesses—would allow organizations to access the type of funding they need, when they need it. In the absence of such a multi-stranded and multi-phased capitalization approach, all organizations are likely to apply for every emergency grant they can find, because they have no way of knowing when the funds will be depleted and whether new funds will become available in the future.



The result is an inefficient distribution of resources, when, for instance, an organization that would best go into hibernation for a few months decides to restart programming because it receives a grant that needs to be spent within a certain time period.

While we imagine that a wide range of organizations (though perhaps not all) would be eligible to apply for the various pools of capital, we do not believe that these funds will be well-suited to solve the problems of the largest cultural institutions in Southeast Michigan. The financial situations and needs of the largest organizations vary greatly, and the amount of resources they need to address their challenges are so great that it doesn't seem appropriate that they would pull funds from a pool that is primarily intended to serve small and mid-sized organizations. Moreover, the large institutions already have relationships with the major funders in the region, and have the staff capacity to negotiate with funders individually. Small and mid-sized organizations often don't have the bandwidth or the necessary connections to access funders directly, which is precisely why pooled funds are an effective way of giving them access to the resources they need.

In the following section we describe the four types of capital which we believe will be necessary to sustain and rebuild Southeast Michigan's cultural ecosystem during and after the COVID-19 crisis.

Relief Capital

The most pressing need in the early stages of the crisis is for Relief Capital. These investments serve to preserve the cultural assets of Southeast Michigan in some shape or form, so that they can have another chance at life once the COVID pandemic has subsided. The focus should be assisting with fixed/current commitments and maintaining core organizational and creative capacities. However, we do not see a core purpose of Relief Capital as avoiding furloughs and layoffs or paying off significant debt.

Relief Capital is intended for:

- Rent and utilities
- Securing facilities
- Preserving health benefits for furloughed employees
- Covering costs of programs deemed to be essential to community wellness during the closure (e.g. online educational programs)
- Other costs associated with transitioning to a state of hibernation

CultureSource's *Relief and Resiliency Grant Program* provides this type of capital in the form of \$10,000 grants. It is too early to say what the impact of those grants will be, but it seems likely that those supplemental funds will provide a critical lifeline during this time of need, particularly for small organizations. In addition, they gave the



recipients a psychological boost and let them know that they're not being left to confront the considerable challenges of this moment on their own.

As CultureSource and other funders have undoubtedly learned, there are many challenges likely to be associated with distributing Relief Capital:

- The need for funding is extremely urgent for some organizations
- The amount of available funding dwarfs the systemwide need for funds
- Distributing Relief Capital through a competitive grant program results in a small number of winners and a large number of losers, exacerbating hard feelings amongst losers
- Organizations with cash reserves, who don't yet need Relief Capital, apply regardless because they're not sure if the funds will be available later, when they need it
- Distributing Relief Capital to all organizations in a funder's portfolio, as some foundations have done, results in smaller, systemwide disbursements that do not make much of an impact for larger organizations and can result in disbursement of funds to organizations that do not have an urgent need
- Flat amount distributions can result in some organizations getting too much capital, and other organizations getting not enough

Ideally, our data suggests, Relief Capital could be more effectively distributed with a case-management approach that takes recipients' needs into account, rather than a competitive grant program. Some organizations are currently sitting on a comfortable cushion of cash reserves and don't need Relief Capital at the moment, but they may eventually need additional cash if social distancing measures remain in effect through the fall, or even longer. Some interviewees shared that the need for Relief Capital may only come when they restart programming after the closures, since they will see increased program expenses but may find consumer demand to be insufficient. To prevent the glut of applications that CultureSource experienced for its initial relief grants, it will be important to secure funding for multiple waves of support through the summer of 2021 and a distribution mechanism that can respond to the urgency and scale of need across organizations.

Start-Up Capital

Once social distancing measures are lifted and venues are able to reopen, at least partially, some organizations (most notably producing organizations, but also some museums) will face considerable financial outlays to restart operations, before earned revenue starts to flow in. There's a danger that organizations that are forced to spend down their reserves in order to meet their fixed costs during the shutdown may no longer have enough cash on hand to restart their programs afterwards. This argues for a separate tranche of capital designated for start-up.



Our interviews suggest that “start-up” will mean very different things to different organizations:

- Some small organizations and community art centers will be able to reopen just as soon as they can schedule classes and workshops, and engage artists and teachers
- Some museums will be able to open their doors rather quickly, but face challenges with staffing (i.e., recruitment, training) and challenges implementing health safety measures
- Other museums will face steeper challenges arranging for travelling exhibitions or producing original exhibitions that were cancelled
- Presenting organizations, who must place artists and attractions on sale without knowing how many people will be allowed to attend, may or may not be able to negotiate concessions from artists that would make smaller scale presentations economically viable
- Producing companies (theatres, dance companies, music ensembles) face layers of issues related to reopening, including:
 - the advance timeline required to cast, rehearse, build, market and otherwise bring new productions to the stage
 - artist safety issues, which must be resolved before any programming can re-start, and which in some cases will be a matter of union negotiations
 - government guidelines for maximum number of people allowed to gather, and distancing guidelines in force at a given moment in time, and the economic realities of not being able to fill a space with paying customers
 - audience issues, and the probability that many audience members will not feel comfortable attending large venues until they are vaccinated

While Relief Capital is intended to get organizations through the crisis by offsetting some portion of their net monthly expenses, Start-Up Capital would provide resources to those who need it to resume operations. It would cover expenses such as:

- Investments in newly (or previously) planned exhibitions
- Rehearsals (for new productions or re-rehearsing productions that were running prior to the closures)
- Training new hires (replacing staff that have left)
- Financing in-venue health safety measures (e.g., masks, signage, new technologies)
- Marketing

Start-Up Capital should be awarded based on specific criteria. To avoid mis-use of funds, Start-Up Capital should only be awarded in situations where organizations have already demonstrated a basic level of operating capability and have a coherent plan for ramping up programming and earned revenues. Deployed too early, Start-



Up Capital will be used instead for basic operating needs (i.e., Relief Capital), or for underwriting programming losses without a clear pathway to sustainability. This being said, our expectation is that Start-Up Capital would not be tied to specific projects, productions, or programs, and that it could be deployed flexibly according to the recipient's needs.

Risk Capital

Many organizations are demonstrating extraordinary inventiveness in adapting to the venue closures and social distancing orders that are in place. Most notably, all sorts of programs, from dance classes to concerts, are being moved online. There are also several efforts to support community members' creative activities at-home, as well as innovative outreach and communications initiatives designed to keep patrons engaged and reach out to new audiences during this time of crisis. Some organizations have even taken this unexpected pause in their usual activities to reflect on their role in the community and articulate strategies to deepen their impact once they emerge from this hiatus.

While some organizations we consulted clearly see their current adaptations as stopgap measures that will be given up as soon as they can return to their usual formats, others see these changes as investments in organizational capacity that are expected to pay dividends long after the pandemic has passed. Whereas Relief Capital may be used for the former, Risk Capital is needed to support the latter.

Risk Capital gives arts organizations the opportunity to break out of the crisis thinking of the current moment and invest in becoming the organization they want to be once they emerge from the crisis.

Risk Capital is needed for:

- Programmatic experiments, and related research and evaluation
- Long-term investments in program delivery
- Getting new programming partnerships off the ground
- Services that support the wider cultural ecosystem (e.g., “hubs” that provide services to other nonprofits)
- Training and capacity building to acquire new skill sets
- Strategic planning

While some organizations are indeed experimenting with new programs and formats that may have a considerable impact on their organizational model after the crisis, the investments supported by Risk Capital don't need to be radical reorientations. Indeed, some may be more incremental or technical improvements that will help an organization better fulfill its mission in the long run. For instance, a Community Arts Center would like to make their “at home” art-making program a permanent part of their program portfolio, but needs funding to fully design, test, and experiment with



different roll out approaches. Or, a dance company would like to accelerate implementation of a “dance appreciation” online course that they’ve been wanting to implement for some time.

Transformation Capital

When we started our research, we were expecting to hear many stories in our interviews of looming bankruptcies, cultural spaces going up for sale, and vulnerable organizations merging with more stable institutions in order to continue programs despite financial difficulties. As it turned out, we heard very little of that. This may result from the fact that the interviews were held just a few weeks into the pandemic, in which case some of these more dire outcomes may be just a few months down the road.

We were, in fact, surprised to hear of two instances in which the COVID crisis has had the opposite effect: potential mergers that were being explored were put on hold until there is greater certainty about the impact of the crisis.

As time progresses it is inevitable that there will be more end-of-lifecycle situations requiring structural transitions of one sort or another, whether driven by threat of insolvency or a more proactive desire to re-imagine an organization’s relationship with its community. Several of Detroit’s larger institutions are prime candidates for this level of change, or will be in another few months. Historically this has been a sensitive and under-developed area of funding practice. No one wants to play the role of “fundertaker,” although foundation funders in other areas have done this quite successfully in the past. A bright spot on the landscape of end-of-lifecycle transitions was the planned closure of the Merce Cunningham Dance Company in 2009.³

Perhaps one reason why more chronically distressed nonprofit organizations don’t consider end-of-lifecycle transitions is because there are few attractive alternatives to insolvency, and no financial incentives for choosing them save for the protections that accompany bankruptcy. We don’t expect that Detroit area funders can solve this problem easily or quickly, but we do believe that any comprehensive funding approach to mitigating damage to the nonprofit ecosystem *must* deal with end-of-lifecycle transitions.

From a management standpoint it is extremely difficult to make big decisions when the ground beneath one’s feet is shifting, seemingly by the minute. Nonetheless, we see great value in organizations doing exactly that, and great value in funders creating incentives for transformational thinking about paradigmatic change. We see the

³ [The Legacy Plan – A Case Study](#), by Bonnie Brooks and Trevor Carlson, 2012



COVID crisis as an opportunity for organizations to re-focus on their mission and what they are trying to achieve, and to consider whether there are ways in which they might achieve their objectives more effectively if they were to re-structure or even give up their status as an independent nonprofit organization. This must not be seen as a sign of failure, but rather as a chance to show leadership by thinking creatively about new business models, mergers, and the overall health of Southeast Michigan's cultural ecosystem.

Such thinking is best approached from a position of strength, with a focus on the creative assets and core capabilities that have been developed and how best to build on them for the future. To that end, we believe the sector would benefit from a pool of Transformation Capital that would allow organizations to plan the next phase of their existence, whether that involves transitioning to a new organizational structure, merging with another entity, or sunsetting their operations entirely.

Transformation Capital is intended for:

- Transferring assets and programs to new homes
- Archiving materials and documenting processes
- Paying legal fees and planning costs associated with re-structuring
- Supporting staff and artists as they transition to new opportunities

Longer-term Post-Crisis Capitalization Initiatives

As noted earlier, the COVID crisis has laid bare structural inequities in what kinds of organizations have access to capital. Throughout the interviews and in our subsequent discussions we noted several opportunities for addressing structural features of the ecosystem that either perpetuate inequities or incentivize bad behavior.

Replenishing Reserves

Organizations that have painstakingly built up cash reserves over time and have avoided major budgetary challenges by virtue of their careful financial management may see Relief Capital as rewarding other organizations' poor planning and negligent behavior. If organizations experiencing short-term financial distress are "bailed out" by foundations, it may seem that those who have managed their resources more wisely are indirectly being punished, by being denied access to those funds.

For this reason, it would seem an appropriate countermeasure to the distribution of Relief Capital to also help organizations that had strong balance sheets going into this crisis rebuild their capital reserves over the next 5 to 10 years. This undertaking would require a considerable commitment of resources, and might better be addressed by individual foundations, working collaboratively, rather than through a pooled fund.



Establish an Equity Reserve Fund

While helping those organizations that previously had adequate reserves rebuild their capital is certainly a worthy cause, one must also consider that historical inequities have had a significant influence on which organizations have been able to accumulate endowments and cash reserves, and which haven't.

It wouldn't be practicable to suggest that private foundations or wealthy donors should equip all cultural organizations in Southeast Michigan with cash reserves. However, if ever there were a time to sow the seeds of more equitable access to capital, this would be it. Otherwise, we run the risk of "restoring" the arts and culture ecosystem to its former state of vulnerability and inequitable access to capital.

With a very long timeline in mind, we suggest that a consortium of funders, working in partnership with individual philanthropists, establish a new "Equity Reserve Fund" for the explicit purpose of protecting organizations (and perhaps artists) working primarily in, and for, communities of color from adverse events or future crises like COVID. This would be the equivalent of an emergency cash reserve fund held in trust for the benefit of a defined portfolio of organizations. The exact structure and administration of the fund would need to be carefully planned. The general idea is that the funds would not be intended to cover operating losses, or even to save individual organizations from insolvency, but rather to provide emergency relief in very specific situations beyond the control of staff and board leadership. As the size of the fund increases, the allowable purposes of the funds would be expanded.

Without such a bold structural intervention, the cultural infrastructure best situated to serve Southeast Michigan's racially diverse populations will remain as vulnerable as it is today, while other organizations with better access to philanthropy are able to re-build their reserves and expand their endowments.

Such a reserve fund would represent only one small part of the solution to a much larger set of issues about inequitable access to resources. The entire system of support outlined in this paper must be re-examined through an equity lens so as to ensure that the philanthropic community is not "restoring" funding systems that were inequitable to start with. For example, providing small amounts of Relief Capital to organizations primarily serving historically marginalized communities will do little to address the structural issues that perpetuate chronic under-representation of these organizations in relation to the population of Southeast Michigan. While it may be beyond the present capacity of philanthropic foundations to address the capitalization of these organizations on a structural level, the COVID crisis may very well offer a way into the conversation that has not previously existed.



Postscript: Mapping Our Pools of Capital to NFF’s Framework

In 2010-11, Nonprofit Finance Fund (NFF) produced a series of seminal publications on good capitalization practice for arts organizations. NFF’s framework for six “kinds of capital”⁴ (figure at right) was widely adopted in the philanthropic sector and served as a touchstone for our thinking about deploying capital into the COVID crisis. Our work would be incomplete, therefore, without referencing the NFF framework and attempting to reconcile our four recommended “pools of capital” with NFF’s framework.

Relief Capital is most closely aligned with NFF’s Working Capital. In fact, the immediate financial problems experienced by many arts groups at the beginning of the COVID-19 crisis stem from lack of sufficient Working Capital, often coupled with a lack of Risk & Opportunity Capital (e.g., no “rainy day fund”). As the crisis plays out over what seems to be an ever lengthening span of time, even organizations with several months of Working Capital find themselves in need of **Relief Capital** because they were unable or unwilling to cut costs fast enough to preserve liquidity. In fact, numerous



⁴ *Case for Change Capital in the Arts: Building Vibrant and Viable Cultural Organizations*, 2011, Nonprofit Finance Fund, by Rebecca Thomas and Rodney Christopher, with Holly Sidford, Helicon Collaborative



organizations we interviewed were in various stages of re-purposing other forms of capital into Working Capital, or planning special fundraising campaigns to raise additional Working Capital. As noted earlier, organizations are likely to need multiple waves of **Relief Capital**.

Start-Up Capital might be considered as another form of Working Capital, if the funds are needed to finance programming and other operating costs during a ramp-up period. Only a small number of organizations we interviewed were thinking in terms of preserving enough Working Capital so as to be able to finance start-up costs on the back side of the health crisis. The difference between **Relief Capital** and **Start-up Capital** is mostly one of timing, but also one of organizational readiness. Are the conditions right for the organization to gear up its business model? If the prospects for earned revenue are too weak to support programming costs at a reasonable level, then, one might argue, an organization is not ready for **Start-up Capital**. We see a significant risk, sector-wide, in depleting sources of capital in pursuit of premature or “false starts.”

Alternatively, one might consider **Start-Up Capital** to be more like NFF’s Recovery Capital, although this suggests that the investment is part of a comprehensive re-capitalization plan to set the organization on a more secure financial footing. As time goes on, we suspect more organizations will be forced to shift from a start-up mentality (i.e., when should we re-open) to a recovery mentality (what should our balance sheet look like before we consider re-opening).

Risk Capital maps directly to NFF’s Risk & Opportunity Capital. In NFF’s framework, this includes board-designated reserve funds intended for use in emergencies such as the COVID crisis, as well as capital to undertake programming experiments that might strengthen an organization’s product/service portfolio. It is important to note that nearly every nonprofit cultural organization would benefit from greater access to Risk & Opportunity Capital, and that lack of sufficient Risk & Opportunity Capital was an endemic problem preceding the COVID crisis. Foundation grants often provide one of the few sources of capital that arts and cultural organizations can use for experimentation and product development. When recipient organizations are not financially secure enough to undertake such experiments with integrity and rigor, however, investments of Risk & Opportunity Capital can quickly revert to Working Capital, and therein lies one of the systemic dysfunctions of interchanges between nonprofit organizations and funders. In the case of the COVID crisis, many foundations intentionally released grantees from the restrictions associated with project grants, which had the effect of converting Opportunity Capital into much needed Working Capital. The challenge of deploying **Risk Capital** during a crisis is that many organizations may not be in a strong enough position financially or organizationally to take full advantage of funds designated for a specific experiment. This suggests a using a high test of organizational intent and readiness for these investments, and understanding that additional resources (consulting support, follow-up grants) might be necessary to assist organizations in making the most of these opportunities.



Transformation Capital, in our framework, maps to NFF's Change Capital. In normal circumstances cultural organizations might use Change Capital to accomplish a wide range of business model improvements. In the context of the COVID crisis, the business model transformations that require Change Capital are likely to be driven by the threat of insolvency, a need for significant downsizing, or a sense of opportunity to re-imagine an organization's relationship with its community. As with NFF's Change Capital, investments of **Transformation Capital**, by definition, involve enterprise-level change. The only subtle difference we might point out is that NFF recommends that organizations should have a certain level of stability and capacity to take advantage of investments of Change Capital, whereas organizations needing **Transformation Capital** might be highly distressed and have limited options for survival.



APPENDIX 1:

List of Interviewees

We would like to thank the following individuals and organizations for graciously making themselves available for interviews and sharing detailed information about their organizations' financial situations:

- Ang Adamiak, Arts & Scraps
- Gary Anderson, Plowshares Theatre Company
- Lynne Avadenko, Signal-Return
- Sherrine Azab, A Host of People
- Neil Barclay, Charles Wright Museum of African American History
- Elysia Borowy-Reeder, Museum of Contemporary Art Detroit
- Robert Bowen, Detroit Institute of Arts
- Jocelyn Chen, DesignConnect
- Beth Chilton, Paint Creek Center for the Arts
- Russ Collins, Michigan Theater
- Mel Drumm, Ann Arbor Hands-On Museum
- Phil Gilchrist, Anton Arts Center
- Rhonda Green, Heritage Works
- Gail Grieger, Plymouth Community Arts Council
- Allison Harris, Detroit Suzuki Academy of Music
- Rich Homberg, Detroit Public Television
- Marianne James, The Ark
- Marie Klopf, Ann Arbor Art Center
- Steve McBride, Pewabic Pottery
- Brent Ott, The Henry Ford
- Ryan Myers-Johnson, Sidewalk Detroit
- Izegbe N'Namdi, N'Namdi Art Gallery
- Alissa Novoselick, Living Arts
- Maury Okun, Detroit Chamber Winds & Strings
- Anne Parsons, Detroit Symphony Orchestra
- Stephanie Pizzo, Eisenhower Dance Detroit
- Wisam Qasem-Fakhoury, Arab American National Museum
- Oliver Ragsdale, The Carr Center/The Arts League of Michigan
- Leslie Raymond, Ann Arbor Film Festival
- Lori Roddy, Neutral Zone
- Suma Rosen, InsideOut Literary Arts
- Elana Rugh, Detroit Historical Society



- Olga Stella, Design Core Detroit
- Beth Stewart, Michigan Philharmonic
- DeLashea Strawder, Mosaic Youth Theatre of Detroit
- Robin Terry, Motown Museum
- Sioux Trujillo, Huron Valley Council for the Arts
- Matthew VanBesien, University Musical Society
- Gerry VanAcker, Detroit Zoological Society
- Kathy Vertin, Riverbank Theatre
- Patricia Walker, Michigan Opera Theatre
- Jenenne Whitfield, The Heidelberg Project
- MaryAnn Wilkenson, The Scarab Club
- Marlynne Willingham, Art in Motion
- William Wood, Macomb Center for the Performing Arts and Lorenzo Cultural Center
- Danielle Wright, Opera MODO



APPENDIX 2: Interview Protocol

Intro

Recently, CultureSource announced the establishment of a new regional fund to assist the cultural sector during the COVID-19 crisis. As part of this effort, WolfBrown has been tasked with preparing an analysis of the needs of arts and cultural organizations in Southeastern Michigan for financial support.

The information you provide as part of this exercise is confidential, including today's conversation and any documents that you share with us. It's essential to successful analysis that you feel comfortable sharing accurate information about your organization's current situation.

The interview will cover questions about your financial situation, but also about your thinking about re-starting programs, and what scenarios you're thinking about as you look to the future. Our goal is not to assess your specific needs for financial support, but to gain a general sense of the kinds of support needed across the sector. So, we will not be reporting on individual organizations at all.

May I have your permission to record our conversation? The recording will be confidential and only for my own use in typing up notes.

I promise to let you go in 60 minutes. Do you have any questions before we start?

Programming Impact (10 minutes)

1. *How far out have you canceled programs? What programs are not yet canceled?*

Probe: *How are you approaching decisions about canceling programs?*

2. *What mission-driven programs have you been able to maintain, if any?*

Probe, if applicable: *Are any of your youth programs still functioning?*

Probe: *Have you introduced any new online programs?*

3. *If you had additional funding for producing digital programming, would you expand your existing digital offerings, or produce any additional programs? [test here for what might be done with specific funding for digital programs]*

4. **In general, has the crisis sparked any innovative thinking within your organization about new programming approaches or operating practices?*

Financial Situation (25 minutes)

Next, a few general questions about your financial situation. [Confirm what financial statements can be, or have been, provided.]



5. *What was your financial health going into the crisis? How much cash did you have?*
6. **What is your cash situation now? What is your capacity to continue meeting expenses?*
7. *What cost cutting measures have you taken?*

Probe: *What staff have been laid off? Are any staff members still working but not being paid?*

8. *Did you experience any unrecoverable losses from programming commitments?*
9. *Do you have any bank loans or other debt (such as pre-paid subscriptions) that is in jeopardy of default? [Whether this question is relevant should be apparent from the balance sheet]*
10. *Do you have any reserves, or endowment money that you've been able to un-restrict and access on an emergency basis? [Whether this question is relevant should be apparent from the balance sheet]*
11. **What's been the effect of your financial situation on your use of contract workers? What kinds of contract workers have lost work? Can you give me a rough count of how many contract workers have lost work? [try to get a sense of the scope of work lost].*

Probe: *Have you taken any steps to assist contract workers in accessing unemployment benefits or emergency relief funds?*

12. *Are you still generating any operating revenues, either from advance ticket sales or contributions?*

Probe: *Have you raised any emergency funding from individual donors? How much?*

Probe: *Have you received any foundation grants to offset short-term losses? How much, and from whom?*

13. *Do you anticipate taking advantage of any federal relief programs?*

14. **Has there been any discussion about discontinuing operations indefinitely, or permanently sunsetting any programs, or merging with another organization?*

Probe: *Have you heard from any other organizations that are facing insolvency?*

Facilities and Other Fixed Assets (5 minutes)

15. **Now I'd like to ask you about your facilities and any other fixed assets you may have, and the likely effects of the current crisis on your ability to secure and maintain them, whether they are owned or leased. Can you foresee a situation where your organization is in jeopardy of losing*



any facilities or fixed assets? Which assets are in jeopardy? Under what conditions might they be lost?

16. *Did you have any expansion plans that have been put on hold, or renovation or importance maintenance work that has been deferred?*

Scenario Planning (5 minutes – optional)

17. **Are you doing any scenario planning, either formally or informally? [If Yes] What scenarios are you looking at in terms of starting up again?*

Probe: *What is the worst-case scenario you've contemplated? Does any scenario involve insolvency?*

Re-Starting (10 minutes)

18. *Have you given any thought to a start-up strategy once your facilities are allowed to re-open? Do you anticipate any difficulties gearing back up? What's the lag time between re-hiring staff and opening programs/exhibitions?*

19. **Do you have the cash you need to re-start programs?*

Probe: *What kinds of investments in programming will you need to make, in order to get back on track with programming?*

20. **If funding were available specifically for re-starting programs, what level of funds would you want?*

Probe: *If a loan program were available to help finance start-up costs, would you have any ability to re-pay a loan?*

Summary Reflections (5 minutes)

21. *Of course it's probably too early to learn any lessons from the hardship, but have you had any thoughts about how you might operate differently once you're back to a healthy level of support for your programs, or how you might structure your balance sheet differently in the long run?*

