



# REPORT RELEASE

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## CAPITALIZATION NEEDS OF ARTS & CULTURE ORGANIZATIONS IN SOUTHEAST MICHIGAN: SECOND EDITION

Covid-19 is hitting our cultural sector like successive tsunamis—as soon as our community begins drying out, yet another wave lands. Across this crisis environment, we have been proud of our cultural sectors' ability to stay afloat and our CultureSource team's steadfast support of creative activity.

This capitalization needs assessment—a follow-up to the first one we commissioned in April 2020—is one aspect of that CultureSource support. It is our strategic effort, in real time, to understand what is happening and give our member organizations, artists, partners, and sector stakeholders tools to respond.

Though this report is about the arts and creative community in Southeast Michigan, its findings speak to trends and insights relevant to the broader community of cultural organizations and creative people.

Please read the **WHOLE** report. It is rich and a worthwhile time commitment. When you finish, you may wonder, **how will CultureSource respond?** Our initial thoughts are that we will do the following:

- Increase our capacity to do local and regional coalition building work—preparing to mobilize (government) resources during the next crisis
- Produce even more compelling rationale for policy, patronage, and philanthropy not exacerbating troubling contrasts between what the study cites as "haves" and "have nots"
- Double down on our offerings of adaptive leadership and change management trainings
- Use our monthly and special convenings of sector CEOs and senior staff to help them overcome weariness and embrace the urgency to evolve
- Pay greater attention to the arts education / creative youth development sector, independent creative workers, and arts enterprises highly dependent on earned revenue via special capacity initiatives, proactive outreach, and new research to identify solutions
- Take every opportunity—though complex and time-consuming—to promote and support institutional partnerships: in funding, programming, and research and development
- Explore innovative opportunities to offer centralized services and support to workers in cultural institutions—helping them remain and thrive in our region's creative community

We are also grateful for the partnership of WolfBrown. Whenever we have a question about the current or future state of the arts and culture sector, we have reliably been able to engage Alan Brown and others on the team as flexible, highly-skilled, and high-integrity partners.

Please feel free to be in touch with our CultureSource team as you have follow-up questions about this report or would like to work alongside us.



# Capitalization Needs of Arts & Cultural Organizations in Southeast Michigan

2021 Update

Research Commissioned by  
CultureSource

Alan Brown and John Carnwath,  
with Rebecca Thomas

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## CULTURESOURCE

CultureSource is a member association for non-profit arts and cultural organizations in Southeast Michigan serving Wayne, Oakland, Macomb, Washtenaw, Livingston, Monroe and St. Clair counties. As a regional service organization, we do this work through hosting professional development workshops that grow creative and leadership capacities, presenting programs that provide space for exchanging ideas about arts and culture, and leading initiatives that bring together stakeholders interested in the public accessing creative expression.

Our mission is to advance the work of organizations that cultivate creative and cultural expression in Southeast Michigan.

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WolfBrown collaborates with industry leaders to build a more equitable, more pluralistic, and more sustainable future for artists, organizations, and whole ecosystems. Our research and planning work aims to find opportunity amidst the profound uncertainties of the current day, and also tackles some of the sector's most vexing, long-term challenges.

We resist the idea that consultants are 'experts' and instead cast ourselves as learners alongside our clients and collaborators, which include foundations, public sector agencies, individual organizations and consortia. Often, we collaborate with artists and managers to bring diverse perspectives to a particular assignment.

Our goal is to move away from systems of exclusion and privilege that perpetuate inequities wherever we find them, whether in our own approach to consulting work, or in the mechanisms of cultural production that are the object of our research and planning efforts.

Access to arts and culture is a human right, but a more democratic culture is not inevitable. We have to build it, one brick at a time. This is the very cause of our work.



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# SECTION 1

## Executive Summary

Since the onset of the COVID-19 pandemic in early 2020 the arts sector has experienced two years of extraordinary uncertainty and financial tumult. Two WolfBrown analyses commissioned by CultureSource aimed to take stock of the financial situation of Southeast Michigan’s nonprofit cultural sector, both to document the effects of the pandemic and to understand coping strategies and sources of resilience, financial and otherwise. The first paper, [“Capitalization Needs of Arts & Cultural Organizations in Southeast Michigan,”](#) was released in July 2020 as an archival and instructive snapshot of organizations thrust into the chaos of scenario planning, uncertain of how long the pandemic would last or what resources would be available to them. At the time, the first tranche of forgivable loans was being distributed through the Payroll Protection Program (PPP), although it was not clear how deeply the loans would reach into the nonprofit cultural sector.

This paper offers a second analysis, with research conducted in the fall of 2021 and completed in early 2022. We had planned to begin the research earlier, but the release of grants through the Shuttered Venues Operators Grants (SVOG) program was still ongoing through the fall months and would have a significant impact on the analysis. As of the writing of this report the sector is emerging from the Omicron surge. Most organizations resumed programming at some point late 2020 or 2021, but demand is uneven. Across the sector audience demand is in the range of 20% to 50% below pre-pandemic levels, and significant questions remain as to when, or whether, demand will fully recuperate.

Our analysis aimed to understand what has sustained arts organizations in Southeast Michigan over the past 18 months, what damage has been done, what has been learned from the first two years of the pandemic, what are the most pressing needs of arts and cultural organizations as they resume operations, and what role philanthropists might play in this work moving forward.

Overall, the sector has weathered the financial storm with greater success than we imagined, although the sources of support have been highly unpredictable and unevenly distributed across the sector. Organizations that rely heavily on earned income and lack cash reserves were especially hard hit.

Many stakeholders played a role in relief efforts, including foundation funders, individual donors and ticket holders, nonprofit support agencies such as CultureSource, and local, state and federal governmental agencies. The federal relief programs (PPP, SVOG) unquestionably played the largest role in sustaining the arts and cultural sector over the past 18 months, along with a patchwork of grants from the State of Michigan and county governments. As of Dec. 2021, SVOG grants to



Michigan recipients totaled \$350 million, of which approx. \$117 million was earmarked for nonprofit and commercial live entertainment organizations in Southeast Michigan (not including grants to cinemas). The PPP forgivable loan program distributed \$24 billion to Michigan small businesses. Nationwide, 3.7% of these loans went to nonprofits, which would be \$888 million for Michigan. We don't know how much of this went to nonprofit cultural organizations, but our research suggests that the PPP money reached deeply into the sector.

While it might be said that government relief more or less “saved the sector,” a high level of uncertainty surrounded these streams of funding in regards to eligibility and timing. As a result, the nuanced work of capitalization planning was truncated. The SVOG grants, particularly, were distributed unevenly across organizations, in many cases reinforcing historical divisions between “haves” and “have nots.”

Cost cutting was a necessary coping mechanism for most organizations, often involving staff furloughs, layoffs, or temporary salary reductions as well as programming reductions. Earned revenues have been slow to recover and irregular. Some organizations, therefore, are caught in the “liquidity squeeze” of having re-built staff and programming capacities in order to re-open, but are enduring a protracted period of diminished levels of demand for their programs.

Large grants from other sources (e.g., Ford Foundation and MacKenzie Scott) significantly impacted a small number of organizations and helped to secure their finances for several years.

Audiences and members contributed to their organizations' resilience by converting tickets into donations and generally being patient and forgiving while organizations navigated the crisis. Revenues from individual donors more or less held steady at pre-pandemic levels, but were sourced from a shrunken donor pool. Many existing donors increased their giving levels, but this was offset by a declining number of donors overall; however, the losses and gains have not been distributed evenly. Nationally, organizations representing communities of color saw individual donations decline during the pandemic, while organizations with historically white leadership and audiences have seen increases. Meanwhile, organizations representing communities of color showed relatively stronger overall contributed revenues in 2020 compared to other organizations, including foundation funding and other sources.

Foundation funders were the “first responders” on the scene at the onset of the pandemic, and will still be around when the other one-time sources of relief are long gone. Support from foundations generally took three forms:

1. Relaxed grant requirements, providing supplemental grant awards and/or extending grant periods;
2. Emergency relief funding; and,
3. Large, unrestricted investments in organizations serving communities of color, seeking to redress historical inequities (mostly out-of-state funders).



The amount of relief funding distributed by foundation funders pales in comparison to relief distributed through government programs, but foundations will continue to play an outsized role in the ecosystem because of their long-term commitment to the region.

While the extreme level of uncertainty over the future has subsided for some organizations, there is also a risk that the large cash infusions will create a false sense of security or diminish the sense of urgency to innovate. Meanwhile, some of the smaller and mid-sized organizations without large grants may run out of cash in another six to 12 months. Much depends on epidemiological conditions. The Delta variant set back the cultural sector by about four months, and the impact of the Omicron variant is likely to follow a similar pattern. If additional variants follow, there will be additional hardships, but further government support is unlikely.

All of this has caused us to reflect on the nature of resilience. While access to capital offers organizations the luxury of time, the greatest source of resilience is not capital, but leadership with the capacity to confront uncertainty, look at worst case scenarios, revisit what is negotiable and non-negotiable about mission and programming, identify options, and, ultimately, reimagine the future.

We encourage grantmakers and philanthropists to acknowledge the value and importance of collaborative funding efforts, not only in pooling relief funds in times of crisis, but in addressing other, more persistent challenges. Our analysis suggests two potential areas for coordinated or pooled funding over the next two years: 1) supporting arts and cultural organizations in their planning work to reimagine the future; and 2) strengthening support of the people who work in the sector, including artist and administrators, through more holistic approaches to professional development. Beyond these specific needs, cultural organizations will need targeted, flexible capital to invest in organizational change and new business models.



## SECTION 2

# Introduction and Methodology

### Introduction

Early in 2020, the COVID-19 pandemic upended social, cultural, and economic life in the US and around the world on an unprecedented scale. The first two presumptive cases of COVID-19 in Michigan were detected on March 10, 2020. Three days later, public gatherings of over 250 people were prohibited, and by the following Monday all “places of public accommodation,” including theaters, concert halls, and museums, were closed by executive order of the Governor.<sup>1</sup> On March 23, Governor Gretchen Whitmer issued a stay-at-home order “directing all Michigan businesses and operations to temporarily suspend in-person operations that are not necessary to sustain or protect life.”<sup>2</sup>

Since many cultural practices revolve around bringing people together for shared experiences, it soon became apparent that the cultural sector would be among the hardest hit industries along with travel and hospitality.<sup>3</sup> Within weeks of the initial outbreak, CultureSource, in partnership with the Community Foundation for Southeast Michigan, established the COVID-19 Arts and Creative Community Assistance Fund in order to offer support to arts and culture organizations in the seven-county region of Southeast Michigan as they navigated 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

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<sup>1</sup>[https://www.michigan.gov/whitmer/0,9309,7-387-90499\\_90705-521595--,00.html](https://www.michigan.gov/whitmer/0,9309,7-387-90499_90705-521595--,00.html);

[https://www.michigan.gov/whitmer/0,9309,7-387-90499\\_90705-521789--,00.html](https://www.michigan.gov/whitmer/0,9309,7-387-90499_90705-521789--,00.html)

<sup>2</sup> [https://www.michigan.gov/whitmer/0,9309,7-387-90499\\_90640-522625--,00.html](https://www.michigan.gov/whitmer/0,9309,7-387-90499_90640-522625--,00.html)

<sup>3</sup><https://www.nytimes.com/interactive/2020/04/11/business/economy/coronavirus-us-economy-spending.html>





- Peck Foundation
- William Davidson Foundation

At the same time as this emergency relief fund was set up, CultureSource realized the need for a robust understanding of the capitalization needs of 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 arts nonprofits lost as a result of the pandemic, 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. WolfBrown conducted 46 interviews with the leaders of arts and cultural organizations in Southeast Michigan in April 2020, and proposed an investment framework that highlighted the diverse forms of capital that would be needed to sustain and eventually re-open the cultural sector.

A year-and-a-half later, scientific advances, widespread immunization efforts, and other public health policies have allowed many areas of public life to resume, with some modification. Yet with every new variant of the COVID-19 virus that emerges there are also setbacks, and it's clear that the pandemic is far from over. In some ways, the pandemic's impact on the cultural sector hasn't been as bad as we had feared—we haven't seen the wide-spread insolvencies among arts organizations we imagined as the pandemic began—but we've also been disabused of the idea that a vaccination or cure will soon allow us to declare victory over the virus and then re-open our venues to densely packed crowds as if nothing had happened.

As it becomes more and more clear that “re-opening” will not be a single moment in time, but a drawn-out process that proceeds in fits and starts over several years and requires innovation and adaptation, it is an appropriate time to check in again with arts organizations in Southeast Michigan to see how they have fared, what their current situation is, and how their outlook for the future compares to that of a year ago. Follow-up conversations with organizations that participated in the initial study have allowed us to reflect on questions such as:

- What has sustained arts organizations in Southeast Michigan over the past 18 months?
- What long-term damage has been done?
- What are the short-term financial needs of arts and cultural organizations as they resume operations?
- What has our field learned about disaster preparedness and distribution of relief funds?



This report summarizes the findings from 19 interviews with the leaders of arts and cultural organizations in Southeast Michigan (listed in Appendix 1). The interviews were conducted in September and October 2021.

## Methodology

Rather than drawing a random sample, CultureSource hand-selected a cross-section of 21 arts and cultural organizations from the list of 46 organizations that participated in the 2020 study. Of those that were selected, 19 agreed to a one-hour interview. In most instances, the WolfBrown team member who held the initial conversation in 2020 also conducted the follow-up interview to provide continuity in the discussion.

Table 1 provides an overview of the sample by type, budget size, and county.

OVERVIEW OF SAMPLE	Number of Orgs Interviewed (Total=19)	% of Orgs Interviewed
<b>Organization Type</b>		
Community Art Center	3	16%
Creative Youth Development	2	11%
Museum	6	32%
Presenting Organization	3	16%
Producing Organization	5	26%
<b>Annual Budget</b>		
Over \$20 mill	2	11%
\$10 mill - \$20 mill	0	0%
\$5 mill - \$10 mill	3	16%
\$2 mill - \$5 mill	3	16%
\$1 mill - \$2 mill	3	16%
\$750k - \$1 mill	2	11%
\$250k - \$750k	4	21%
\$100k - \$250k	2	11%
Under \$100k	0	0%
<b>County</b>		
Macomb	1	5%
Oakland	2	11%
St. Clair	0	0%
Washtenaw	3	16%
Wayne	13	68%

In addition, we interviewed a small number of national thought leaders, who work as funders, service organizations, consultants, and researchers to contextualize the perspectives shared by arts and cultural leaders in Southeast Michigan. (See Appendix 1.)



## SECTION 3

# The Financial Stories of the Past 18 Months

*“Our basic business model is that we put on concerts, we lose money when we put on concerts, and people make up the difference by giving us money. So if you take away the concerts and the loss and still get the money, you come out ahead ... The challenge of all of that is that the surplus came out of pocket of musicians who we are not paying.”*

### What was the prognosis back in 2020?

When we conducted our interviews in April 2020, cultural venues had been closed for just over a month. At that point in time, we were impressed by the resilience and adaptiveness of many of the organizations we consulted. Only a few of the organizations we interviewed were facing acute financial difficulties; however, it seemed almost certain that some would face far more serious problems if they were unable to re-open in the summer or fall of 2020.

We categorized each of the 46 organization we interviewed into one of four typologies characterizing the organization’s overall likelihood of surviving and re-emerging from the COVID crisis (in descending order of risk/vulnerability). In our estimation:

- Two organizations might run out of cash within three months (“facing insolvency”);
- Seventeen had a few months of cash available and were trying to manage costs down to reach a sustainable state of hibernation (“Entering survival mode”);
- Fifteen were “conditionally secure,” meaning they had prospects for accessing additional resources to keep them afloat, which, however, were not guaranteed; and,
- Eleven organizations had sufficient financial reserves to sustain themselves for a year or two with or without hibernating.

These were subjective and necessarily reductive adjudications, and we cautioned that this picture was liable to show significant swings over time. As it turns out, none of the 19 organizations that we followed up with 18 months into the pandemic have permanently closed, and none of them currently see insolvency as an immediate threat. While this is certainly to be celebrated, it should not be misconstrued as



evidence that the sector has survived unscathed, nor should one conclude that its future is secure.

This section of the report explores the sources that have sustained the sector during the pandemic and reflects on the nature of organizational resilience.

## **Approaches to managing costs**

The 2020 report highlighted two different approaches to cutting costs during the initial phase of the pandemic. On the one hand, there were organizational leaders who 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 by a forgivable loan from the Payroll Protection Program (PPP), and how much staff would earn if their hours were reduced.<sup>4</sup> On the other hand, there were organizations who considered potential layoffs as a test of their moral integrity, rather than a financial calculation. These organizations felt the loss of trust within their artistic ensembles or the communities they serve that might result from layoffs outweighed any potential short-term financial calculations.

As the pandemic wore on, this picture became more complicated, as we heard in the fall of 2021. While the pandemic was extremely stressful and employees felt they needed to shoulder greater workloads with less staff capacity, day-to-day operations shifted from their pre-pandemic norm. Some of this took the form of a frantic scramble to redesign programs and bring content online, but many of our interviewees also described quiet moments of staff-wide reflection and strategic planning. Freed from the need to open the next exhibition, contract with guest performers, or promote the upcoming production, there were opportunities for deep soul searching and strategic reflection. In many instances this process has been less hierarchical and more inclusive than previous strategic planning efforts, and staff members have generally found the opportunity interesting and engaging.

Even when programming overall was initially cut or shifted online in some scaled-back version, it soon became apparent that new investments were necessary both to offer modified program formats during the pandemic and prepare the organizations for a post-pandemic future. Some of these investments were technological, but, importantly, investments in staff capacity were also necessary.

Several of the leaders who initially laid off staff reported hiring new staff members to fill gaps in their team even before they were able to re-open to the public. In some

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<sup>4</sup> Only one organization reported taking advantage of Michigan's Work Share program that allows organizations to keep staff on payroll while receiving partial unemployment benefits.



cases these were the same people who had previously been let go, but, more often, new hires were brought onboard to add skills that were previously lacking and help shepherd the organization in new directions. One organization we spoke to even expanded its staff beyond its pre-pandemic levels.

For some organizations, the temporary halt in public life and the widely recognized struggles in the cultural sector created an opportunity to make some very difficult decisions about their team members and changing staffing needs. Having taken the opportunity to restructure and redefine staff positions, several organizations feel confident that they are emerging from the pandemic with a more streamlined and effective organization.

As suggested by the epigraph to this section, it seems clear that independent contractors – most notably artists and teaching artists hired to work on specific productions or programs – are the ones most severely impacted by cultural organizations’ cost saving measures. We didn’t interview individual artists as part of this scan, but understanding the impact the pandemic has had on their livelihoods, creative practices, and plans for the future should be a primary concern of the sector, particularly now that the federal Pandemic Unemployment Assistance (PUA) has expired.

## **Sources of support during the pandemic**

### Government

The single biggest surprise of the pandemic may have been the extent to which the federal government came to the aid of the arts and cultural sector. The federal dollars received by arts and cultural organizations in the past 18 months undoubtedly represent the biggest investment in the sector since the Works Progress Administration’s Federal Project Number One, instituted under Roosevelt’s New Deal. Without the two rounds of Paycheck Protection Program (PPP), CARES Act money, and the Shuttered Venues Operators Grants (SVOG), we would likely be looking at a substantially diminished arts sector today.

Just a month into the pandemic, when we first spoke with leaders of arts organizations in Southeast Michigan, the potential impact of the forgivable PPP loans was already on the horizon. In terms of dollars injected into the sector, the federal loans far outweighed relief grants from private sources. Initially, however, there were also significant concerns about the PPP program: By mid-April 2020, almost half of the eligible organizations with budgets over \$2 million dollars had secured PPP funding, whereas only two of the 30 organizations with smaller budgets had received assistance.

While it initially seemed that larger organizations—which have advantages such as dedicated fundraising personnel, preexisting relationships with banks, and influential partners and board members—were more easily able to access the loans, the



program eventually reached deeply into the arts ecosystem of Southeast Michigan, including many small community-based organizations and organizations that provide educational programs.

Only the very largest organizations in our sample were ineligible for PPP loans based on their budget size, and two of the smallest organizations didn't apply for PPP loans due to uncertainty about their eligibility and whether the loans would be forgiven. As of now, all of the PPP loans have been forgiven or are expected to be forgiven; however, the multiple changes to the criteria and application process, combined with uncertainty about whether loans would be forgiven and whether additional rounds of funding would secure employees' paychecks beyond the initial three months, made it difficult for organizations to plan. Small organizations with limited staff capacity and cash reserves were particularly challenged by this.

The PPP undoubtedly served its purpose of securing a good number of staff positions, though, as mentioned above, it did little to support contracted artists. Only one organization reported converting contractors into full-time employees between the first and second rounds of PPP loans, so as to be able to compensate them with federal funds.

CARES Act money, distributed through Arts Midwest, Michigan Council for Arts and Cultural Affairs (MCACA), and directly from the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) likewise reached deeply into the arts ecosystem, but overall had less of an impact due to its smaller award amounts. The largest grants we heard about (in the range of \$50,000) came directly from the NEA (compared to PPP loans that could reach into the millions for the largest organizations). Grants from MCACA only provided up to \$3,000, and were distributed to a wide range of organizations, from the very largest in our sample to some very small ones.<sup>5</sup> It is difficult to tabulate the overall impact of the CARES Act grants, as our interviewees weren't always sure where the funding for grants that were administered by intermediaries came from.

The Small Business Administration's Economic Injury Disaster Loan (EIDL) played a much smaller role in supporting the arts and cultural sector in Southeast Michigan during the pandemic. Only three organizations mentioned applying for and receiving the EIDL loan. One of those organizations never actually used the loan, but said it was reassuring to have the extra cash on hand in case it was necessary. Another is using about half of the money they received from the EIDL as a bridge loan until they can secure additional foundation support. The third used the EIDL money to restructure existing debts with more favorable terms and establish a cash reserve.

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<sup>5</sup><https://www.michiganbusiness.org/4a8549/globalassets/documents/mcaca/erf-final-funding-plan-by-county.pdf>



Grants to Michigan-based organizations through the SVOG program totaled just over \$350 million as of Dec. 13, 2021. A number of CultureSource members received these grants, including organizations participating in this study. This is publicly available information.

SVOG Grantee (as of 12/13/2021)	Initial Amount	Supplemental Amount	TOTAL
The Edison Institute (The Henry Ford)	\$10,000,000		\$10,000,000
Detroit Zoological Society	\$7,715,638		\$7,715,638
Detroit Symphony Orchestra	\$3,071,397	\$2,535,698	\$5,607,095
Michigan Opera Theatre	\$2,630,527	\$1,949,477	\$4,580,004
Detroit Institute of Arts	\$4,451,875		\$4,451,875
Michigan Theater Foundation	\$1,737,532	\$1,136,639	\$2,874,170
Music Hall Center for the Performing Arts, Inc.	\$1,662,977	\$926,694	\$2,589,671
University Musical Society	\$1,456,564	\$909,681	\$2,366,245
Ark, The	\$912,549	\$531,275	\$1,443,824
Flint Institute of Music	\$599,065		\$599,065
Stagecrafters	\$200,514	\$120,976	\$321,490
Michigan Science Center	\$315,940		\$315,940
Ann Arbor Summer Festival, Inc.	\$145,499	\$118,916	\$264,415
Detroit Public Theatre	\$28,225	\$47,363	\$75,588
Chamber Music Society of Detroit	\$23,203	\$42,602	\$65,805
Ann Arbor Film Festival, Inc.	\$46,235		\$46,235

Table 1. Selected Shuttered Venues Operator Grants as of 12/13/2021

For a long time it was unclear whether SVOG grants would become available, so organizations couldn't count on that support in their annual budgets. When the two tranches of SVOG grants finally arrived, the amounts were large enough to have considerable impact. Indeed, for some organizations that had been struggling financially prior to the pandemic, multi-million dollar SVOG grants have provided a real opportunity for organizational transformation.

These grants provided relief to organizations based on the lost revenue that resulted from venue closures, rather than the costs of maintaining the venues during the pandemic. The award amounts were calculated as a percentage of 2019 earned revenue reported in 2019, up to \$10 million. On a policy level, the primary focus was compensating venue owners and operators for their foregone earned revenue, rather than merely ensuring that the venues could be sustained through the pandemic. The organizations that stood to gain most from the SVOG grants were ones with large venues, large audiences, and high ticket prices.

While it was possible to receive both PPP loans and SVOG support, the amount of any PPP loan received after 12/27/20 was deducted from the SVOG grant, meaning that organizations that have high payroll expenses received less of a boost through the SVOG program. In fact, one smaller organization we spoke to decided not to apply for an SVOG grant because, after deducting their PPP loan, they would only have been eligible for about \$1,000 in additional support. The largest SVOG grants therefore went to large organizations that were either too big to qualify for PPP loans or have proportionally low payroll expenses relative to their earned revenue.



In addition, the eligibility criteria did not filter out organizations with endowments or other significant reserves. Thus, some organizations with significant reserves or even large endowments received federal relief.

While the federal relief programs clearly played the largest role in sustaining the arts and cultural sector over the past 18 months, it is also noteworthy that the state, county, and municipal governments provided substantial funding to some arts organizations. Oakland County used federal CARES Act dollars to support local cultural institutions with grants of up to \$50,000, and some smaller organizations received around \$100,000 to \$150,000 through two rounds of Wayne County's Back to Work grants. The state legislature passed a budget that included line items for two of the organizations we spoke to, providing \$500,000 in one instance and \$750,000 in the other. Finally, the City of Detroit has maintained its support of the Charles H. Wright Museum of African American History despite significant cuts to the municipal budget overall. As of now, however, we are not aware of any municipal plans to direct American Rescue Plan funds towards cultural organizations in Southeast Michigan, as has been seen in other cities around the country.

### Foundations

Foundation support during the past 18 months is perhaps best understood in three categories. To varying degrees, foundations:

1. Supported existing grantees by relaxing grant requirements, providing supplemental grant awards, extending grant periods, and, in cases where program staff have limited influence over the allocation of resources, helping grantees identify other sources of support;
2. Set up rapid response funds to provide widespread relief to the sector; and,
3. Made significant investments in organizations of color during this period, seeking to redress historical funding inequities in the philanthropic sector.

Grantees certainly appreciated the increased flexibility and funding provided by foundations in the first two categories, not least for the sense of moral support they provided. One interviewee suggested that over the past year they had "...experienced what trust-based philanthropy feels like for the first time." However, these efforts were primarily suited to provide relief from short-term cash flow problems. One interviewee, for instance, noted that relief funds helped to bridge the gap until their PPP loan arrived. While the value of this short-term support should not be underestimated, these initiatives were nowhere near sufficient to sustain cultural organizations through the protracted pandemic.

Four of the organizations we spoke with received large, potentially transformative, and completely unexpected grants. (Though technically a private donation, we are counting gifts from Mackenzie Scott in this category.) Remarkably, what might otherwise seem like a once in a decade occurrence, happened to 20% of our (admittedly small and nonrepresentative) sample of cultural organizations in





Southeast Michigan in the past year and a half – and two of those organizations received two such awards in that time period.

Two of those grants arrived through the America’s Cultural Treasures program spearheaded by the Ford Foundation.<sup>6</sup> Four more took the form of donations from Mackenzie Scott.<sup>7</sup> The exact grant amounts have not been made public, but they are likely in the range of 3 to 5 million dollars. One interviewee noted that announcing details of the grant has negatively impacted the fundraising efforts of some recipients of Mackenzie Scott awards in other cities.

What these grants have in common is that they provide very large, unrestricted one-time awards, with few, if any, reporting requirements. They are specifically being directed toward organizations serving marginalized communities in recognition of the fact that historically most contributed revenue has benefitted organizations that reflect the privileged social identities of their benefactors. The intention behind the grants seems to be to redress the active and systemic discrimination these organizations have faced in the past and provide them with a level of capitalization that allows them to operate at a new level. The America’s Cultural Treasures program specifically hopes that its large investments will start a national conversation and “increase giving to Black, Latinx, Asian, and Indigenous arts organizations by other donors and foundations.”<sup>8</sup>

Based on our interviews these major grants have indeed turned the tables for recipient organizations in terms of allowing a different level of thinking about the future. In the short-term, they’ve largely eliminated concerns about surviving the pandemic. The long-term impact remains to be seen. There are questions as to whether these grants may impede future fundraising efforts, either by pre-empting large investments by other funders or by setting unreasonably high expectations for future fundraising. Even if they don’t hamper fundraising, they may lead to budget growth that cannot be sustained with ongoing revenue in the long run. In several cases they have thrust organizations into a situation where they need to build capacity to manage investments and make considered decisions about how and where to invest in the business model or capital structure.

Separate from these major grant initiatives, the Carr Center has received substantial support through a series of grants from the Ford Foundation in the past two years,<sup>9</sup> and Plowshares Theater Company received a three-year grant from The Black Seed

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<sup>6</sup> <https://www.fordfoundation.org/the-latest/news-additional-pages/faqs-america-s-cultural-treasures/>

<sup>7</sup> <https://mackenzie-scott.medium.com/seeding-by-ceding-ca6de642bf>

<sup>8</sup> <https://www.fordfoundation.org/the-latest/news-additional-pages/faqs-america-s-cultural-treasures/>

<sup>9</sup> <https://www.fordfoundation.org/work/our-grants/grants-database/grants-all?minyear=2006&maxyear=2021&page=0&minamount=0&maxamount=30000000&originatingoffices=&thematicareas=&search=%26SearchText%3Darts%20league%20of%20michigan>



initiative,<sup>10</sup> launched by the Andrew W. Mellon Foundation to support Black theaters across the country. While these awards were smaller in size, relative to the organization's annual budget they are still substantial and pursue similar aims in redressing historical inequities.

To sum up, in most instances foundations provided important, rapid relief, but otherwise played a rather minor role in sustaining cultural organizations through the pandemic. Meanwhile, a small number of organizations received grants at a level that will not only sustain them through the current crisis, but potentially prove transformative for their futures.

### Individual donors

The picture for individual donors is a bit more murky. In part this is because the organizations we spoke with have such different expectations for the number and size of individual contributions. A few additional \$1,000 gifts might mark a significant increase in individual contributions overall for some organizations, while for others slight fluctuations at that level of giving would hardly be noticeable. On top of that, the organizations we spoke to cater to such different audiences that their donor bases were affected differently by factors such as pandemic-related layoffs, stock market trends, and economic stimulus checks.

We heard several reports of existing donors stepping up their contribution level without any additional solicitation, particularly early on in the pandemic. These reports come from wide range of organizations. When COVID first hit, one of the larger organizations we spoke to received an unsolicited gift of \$200,000 from a donor who was simply concerned that they'd need the additional money to weather the challenges that lay ahead. At far more moderate giving levels, there were reports of donors increasing their gift amounts due to the economic stimulus checks they received from the federal government. The strong stock market also likely contributed to this trend for some donors.

At the same time, small gifts seem to have declined overall. In part this may be attributed to those donors being more likely to experience financial hardship as a result of the pandemic. According to some interviewees, those donations also tend to be more directly tied to recent experiences with the organization, so that the cancellation of events and programs was more likely to affect those gifts. For organizations that sell subscriptions and/or have a large number of advance purchases for events that had to be cancelled due to COVID there was, however, also a silver lining: Advance ticket buyers' willingness to convert tickets into

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<sup>10</sup> <https://www.americantheatre.org/2021/01/18/the-black-seed-unveils-generous-grant-program-for-black-theatres/>



donations, or accept vouchers instead of a cash refund has been an important part of the individual giving picture during the pandemic for those organizations. In many ways, audiences have been patient and generous.

Some organizations found it challenging to find the right messaging for fundraising campaigns, given the many appeals for disaster relief and basic human needs that donors encountered during the pandemic. The lack of current programs that could be highlighted in fundraising appeals added to that challenge. There were also concerns about the appropriateness of reaching out to community members with an appeal at a time when they themselves might be in crisis (be that financial, medical, or mourning). As a result, some organizations decided to cancel or scale back annual giving campaigns over the past 18 months.

The only reports we heard about organizations expanding their donor bases during the pandemic came in conjunction with online programs that were able to reach new audiences outside of Southeast Michigan.

Overall, gifts from individual donors remained at or above pre-pandemic levels. While these funds provided a much needed through-line of dependable revenue, in most cases individual giving was not a major factor in the overall financial picture simply because the need was so great. While the donor base and giving levels have shifted somewhat, revenue from individual giving has remained fairly consistent, though there are concerns about whether those gifts and elevated giving levels will trail off as the pandemic wears on.

### Earned income

Arts nonprofits have long been encouraged to diversify their revenue sources by developing new streams of earned income, in the belief that more diverse streams of revenue will make them more resilient. While this may be a sound strategy under normal circumstances, organizations with high proportions of earned income have suffered most during the pandemic, while those that rely primarily on grants (and consequently have strong relationships in the philanthropic community) have been better poised to benefit from the largess of foundations.

Most notably, of course, organizations that rely on ticket sales or admissions saw their revenue dry up completely during the mandated closures, and that revenue is only slowly returning as venues re-open in fits and starts. Less obviously, organizations that earn a significant portion of their income from fee-based or contracted educational programs have been deeply impacted by the pandemic. This includes organizations that offer summer camps and those that provide contracted services for schools and other service providers. While some educational programs successfully transitioned online, many in-person programs are still operating at reduced capacity.



Other sources of earned revenue, such as venue rentals for corporate events and weddings have likewise taken a big hit during the pandemic. Several organizations have also seen their corporate sponsorships evaporate, both because of the reduced opportunities for event sponsorships and a reorientation towards supporting the provision of basic human needs.

While most of the organizations we spoke with have offered live or recorded programs online during the pandemic, no one has been able to turn that into a sustainable source of revenue. However, organizations that create products that can be sold online have had a different experience. Pewabic's pottery sales have doubled year over year, driven by e-commerce and sales of architectural tile as people divert spending towards home improvement projects. The Heidelberg Project used the slow-down during the pandemic to write and publish a children's book based on their founder, which has since sold out on their online "dot shop." The book sales have generated additional revenue, and simultaneously garnered national attention for the organization. While online sales have helped support these particular organizations during the pandemic, this strategy may not be easily replicable for others.

Organizations that rely heavily on their earned income have been hard hit during the first 18 months of the pandemic, but what's even more concerning is the lack of certainty around when their earned revenue will return. Most organizations we spoke with that have traditionally operated primarily with contributed income seem quite confident about the next year or two – they're in a healthy financial position and it seems unlikely that all their private donors and foundation funders would desert them all at once. But for those that rely on earned revenue it can feel like an all or nothing moment: either they're able to resume public programs at a level that will sustain them, or not. Either school districts hire them to offer educational programs, or they don't. At this point there's no guarantee that their revenues will bounce back in the new year, and there will undoubtedly be fewer relief grants and government support programs available to catch them if that's the case.

### Investment Earnings and Endowments

A final source of income that is rarely discussed in analyses of the nonprofit cultural sector is investment earnings. Overall, the US Stock market grew 24% over the course of 2021, and based on our interviews, endowment growth for cultural organizations seems to have been roughly in line with that figure. At the same time, none of the organizations we spoke with that have endowments or significant financial reserves tapped into those reserves during the pandemic (or, if they did, they were able to replenish them within the same year). We did, however, hear of one organization taking out a loan against its endowment in order to cover its deficit.

Of course, most of the organizations we spoke with don't have endowments or any other form of investments. For them, the overall effect of the strong stock market was to increase the gap between the "haves" and the "have-nots."



## Reflections on Resilience

Looking back at the past 18 months, one must conclude that the arts and cultural organizations of Southeast Michigan have fared far better than anyone would have predicted in the early stages of the pandemic. This has prompted us to think more deeply about the nature of resilience and what resilience has looked like in the context of the COVID-19 crisis.

One of the big takeaways of the past year and a half is the extent to which resilience has been determined at the sectoral level rather than by characteristics of individual organizations. Regional and national service organizations did an outstanding job coordinating philanthropic relief efforts on short notice and advocating for the inclusion of arts and cultural organizations in government relief efforts. In the absence of these efforts we would now likely be looking at a severely diminished sector, more in line with our initial predictions.

That being said, the opportunities that were created at the sectoral level did not guarantee the survival of individual organizations. Some of those opportunities were offered on a competitive basis, while others required elaborate applications. To take advantage of those opportunities the leaders of arts organizations have been tireless in seeking out information about available funding sources, tracking changes in eligibility criteria and deadlines, networking, advocating for themselves, and generating application materials. The takeaway here is that even organizations that went into “hibernation”—that is, reduced their programs to a minimum to preserve resources— have had to sustain a considerable administrative workload. For larger organizations, this meant preserving dedicated staff positions in order to take advantage of the available opportunities. For small organizations, this often required uncompensated work.

A 2018 literature review commissioned by the Arts Council England distinguishes two meanings of the term “resilience:” “bouncing back” and “bouncing forward.”<sup>11</sup> The former refers to an organization’s (or sector’s, or ecosystem’s) ability to quickly return to the previous state after a shock, and the latter to the ability to adapt to new conditions. While it is not the purpose of the present report to reflect on the nature of resilience in general, we find this distinction useful in thinking about the ways in which we’ve witnessed resilience in the arts sector during the COVID pandemic.

Looking at balance sheets, we can identify organizations whose financial reserves will allow them to continue their programming or, if necessary, go into hibernation for a

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<sup>11</sup> <https://www.artscouncil.org.uk/publication/what-resilience-anyway-review>



number of months or years, without fearing imminent distress. This was the focus of the initial capitalization analysis we conducted in April 2020, and this type of financial security plays an important part in an organization's ability to absorb the shock of the current crisis and to restart again afterwards. Compared to 2020, more organizations now have sufficient cash to "bounce back." But, "bounce back" to what? Even some organizations that are flush with cash are unsure whether their underlying business model is economically viable, according to some arts leaders.

Saving alone won't fix a business model, and in the long run almost any pool of financial reserves will eventually run dry if an organization incurs deficits year after year as a result of an unsustainable business model. Adaptation is necessary for long-term sustainability or "bouncing forward," but in the current crisis it's unclear what set of conditions arts organizations need to adapt to. Do arts organizations need to prepare for the possibility that the days in which audiences will squeeze themselves into sixteen-inch seats and share armrests with a stranger are over? Should they anticipate a permanent shift towards at-home and online cultural engagement? Can they assume that the interest in redressing historical funding inequities that we currently see among some philanthropists will be sustained into the future?

Even in the best of times, no one can foresee what the future will bring, but in the current moment the uncertainty is compounded by the fact that the feedback loop between arts organizations and the populations they serve has been disrupted. Arts organizations are persevering, but lacking their usual interactions with visitors and supporters, they need to get more creative in reaching out to the communities they serve to learn what combination of interests, concerns, limitations, and other factors will be driving public demand for the arts in the future. Some will need to downsize, while others will require more wholesale reinvention that comes from the difficult work of rethinking mission and programming. Thus, the ultimate source of resilience is not merely cash but the capability to continually reimagine and realign the balance between artistic assets and community relevance.

What seems promising in the midst of all of this uncertainty is that many of the organizations we spoke to have taken time during the closures to refocus their staffs on their mission and the communities they serve. Some have taken steps to fill immediate needs within their community during the crisis, and in doing so have demonstrated the value that local arts organizations bring to their communities. While this may not be the program portfolio or business model that sustains them into the future, that level of responsiveness to the needs of the community, combined with their ability to build trust and form new partnerships, bode well for their ability to adapt and continue to play a vital role going forward. Preparing for an uncertain future will require planning, frequent iteration based on what's learned, and capital to support risk-taking and meaningful exploration of change.



## SECTION 4

### Current Situation as of Late 2021

Almost all of the organizations we spoke with in fall 2021 reported that they are currently in a better financial position than they were when we spoke with them 18 months earlier. The previous year closed more positively than they had feared, and a good number of them currently hold greater cash reserves than they did prior to the pandemic. There is optimism about the current fiscal year – none of the organizations are facing immediate financial hardship – but interviewees are concerned about what will happen in 2022 and beyond, when government support and COVID relief funds may no longer be available. Organizations that primarily rely on earned revenue face a particularly uncertain future.

As a result of the unprecedented levels of government support and the efforts of private foundations and individual philanthropists, there's currently a lot of money in the ecosystem, but that money isn't evenly distributed, and it's far from clear that the money ended up where it is most needed or where it will do the most good in terms of carrying the arts and cultural sector of Southeast Michigan into the future. While some historically underfunded organizations have recently received major grants, it seems that overall the gap between the "haves" and "have-nots" in the ecosystem has likely widened.

With the exception of one venue that is currently closed for construction, all of the organizations we spoke with are in the process of re-opening and resuming programs. Asked to indicate their current level of activity on a scale from 1 to 10 in fall 2021 (with 10 representing pre-pandemic levels of programming), all but two placed themselves at 5 or above, with most organizations selecting 7 or 8. The engines of demand have restarted, but are not firing on all pistons, and, in some cases, are sputtering on and off.

Those with significant cash on hand will wait it out, perhaps for another year or two, but the clock is ticking. The cash will run out, eventually, if earned revenue does not return to historical levels and organizations pursue business-as-usual strategies. Numerous organizations are in the awkward predicament of having a very positive cash position at the moment but not yet knowing what they can revive of their pre-pandemic business model, and not yet having a sense of their post-pandemic business model. Our concern is that a false sense of security arising from the current cash position will prevent meaningful change from happening, or worse, encourage organizations to grow in ways that aren't sustainable.

The re-opening process seems to be particularly challenging for some educational organizations, who on the one hand have to work within the strict (and constantly



changing) regulatory and health-safety requirements of schools, and on the other are facing challenges in finding teaching artists who are not only willing to take the risk of going into schools but also comply with testing and other requirements (without additional compensation). While some educational programs have been able to reach new schools and new populations with online programs during the pandemic, overall it seems that access to arts education has been and continues to be inconsistent during the pandemic.

Several organizations have developed hyperlocal programs during the pandemic, intended to connect with local residents and create new opportunities in their immediate neighborhoods. This includes things like free outdoor dance classes, field trips for children that focus on arts and cultural opportunities that are within walking distance, pop-up events, and summer camps offered in conjunction with local neighborhood organizations. Arts organizations have been able to fill a deep need for local, accessible, in-person programming, at a time when people are feeling isolated, disconnected, and starved for real-life cultural experiences. At least in some cases, this seems to have created greater awareness, appreciation, and grassroots support in local communities.

At the same time, some organizations have been able to expand their geographic reach through digital programs. Several who had previously only presented their work locally have found that national and even international audiences are joining their programs online. In some cases, organizations have partnered with artists and organizations in other cities and countries to share resources and extend their reach. While no one has successfully monetized digital programs, some see new opportunities to fulfill their mission online, and the expanded audience may create new opportunities for fundraising (though it may also expose them to increased competition).





## SECTION 5

# Prognosis for 2022 and Beyond

With the rise of the Omicron variant in December 2021, the sector took another hit in terms of curtailed demand for public programming coupled with additional challenges on the supply side (e.g., cancellations). Prior to Omicron many arts groups were seeing demand levels of 20% to 50% below pre-pandemic levels. It seems clear that demand for live programs will be diminished throughout all of 2022, and potentially into 2023, with the biggest wild card being the threat of new variants. Some organizations are predicting the COVID-19 pandemic will be a five-year event in terms of re-establishing audience.

### Strategic challenges facing arts and cultural organizations

- **Liquidity squeeze.** If the pandemic continues with surges of new variants on a rolling basis some organizations will run out of cash in another year or two. Others may run out of cash much faster if costs return to normal but optimistic forecasts of demand fall through and additional emergency funding is not available. They will either need to hibernate, if that is an option at all, downsize significantly, and/or require new infusions of cash, which are unlikely to materialize at the same magnitude as in 2020/21. Some organizations approached this point just prior to the first infusion of PPP money, and then retreated from the brink of disaster. The very largest organizations in the SE Michigan cultural sector are, for the most part, not at risk at this moment in time, either because of their endowments, streams of tax-based funding, or recent receipt of large grants.
- **Workforce health and diversity.** Although this is not unique to SE Michigan, there are significant workforce issues to grapple with at the sector level. The invisible effects of the pandemic include loss of artistic capabilities (e.g., dance ensembles that stopped rehearsing, artists who stopped or diminished their artistic practice), rising labor costs and difficulty with recruitment, and loss of institutional knowledge due to staff turnover. This is particularly challenging in relation to the efforts of many organizations to diversify their workforce.
- **Shifting public tastes.** While public tastes in arts and entertainment experiences tend to shift slowly along with demographic and technological changes, the pandemic accelerated shifts that were occurring beforehand. These trends include the swelling tide of public interest in television drama (and binge watching), growing familiarity with at-home participation in live streamed and digitally recorded arts programs, growing interest in all kinds of



immersive and interactive experiences, including exclusively virtual entertainment and gaming. The nonprofit arts sector, because of its highly decentralized and competitive nature, is slow to respond to these shifts. Donors with the capacity to underwrite R&D costs tend to have more conservative tastes. Meanwhile commercial producers from Europe and the US are investing heavily in new types of entertainment formats and venues such as the MSG Sphere in Las Vegas. As a result we foresee a tectonic shift in consumer demand over the coming years from experiences offered by nonprofits in conventional venues to experiences offered by commercial producers in highly specialized physical and virtual environments.

- **Lack of Risk Capital.** The nonprofit arts sector’s lack of access to risk capital, and the lack of willingness to collaborate on the kinds of R&D that would lead to the development of exciting new strands of programming, represents a significant threat to the sector. It is increasingly unrealistic for individual nonprofits, no matter how large or well-endowed, to compete against commercial businesses capable of making large investments in new technologies and proprietary creative assets.
- **Continued inattention to audience development.** Most arts groups harvest existing demand but are unable to invest in programs that cultivate new demand, with the notable exception of community programming for youth. As a result, levels of public interest in conventionally presented live programs in conventional venues are likely to erode over the coming years, while interest in alternative formats, temporary spaces, and virtual environments increases. Digital programs might be a cost-effective avenue for expanding audience development efforts, but this will require collaboration and investment across arts groups, and the necessary institutional willingness to change.

## **Strategic opportunities facing arts and cultural organizations**

- **Planning for stronger balance sheets.** If anything, the pandemic illustrated the need for better “balance sheet planning” as regards to setting goals for working capital and reserves, even for smaller organizations. Organizations that accumulated cash unexpectedly still lack strategies for how to use, save, and/or invest these funds in ways that support the dual values of financial stability and mission advancement. They would benefit from support in assessing how to prioritize and balance: i) accessibility of cash for day-to-day needs; ii) board-designated reserves for risk management and periodic risk-taking; iii) strategic expenditure of capital to change in ways that increase health and impact; and for a select few, and iv) investment of any additional long-term funds for ongoing income generation.
- **Exploring new business models.** This is a time for many cultural organizations to rethink their business models, including their program offerings, operating structures, leadership, etc. Some organizations did this in



2020, while others initiated planning processes in 2021 which are ongoing. Organization leaders will need a great deal of support with planning efforts of all kinds - understanding what their “new normal” may look like in terms of programming and sources of support, and then creating multi-year budget scenarios that map out how and when revenue streams will materialize to support evolving program and operations. Of course some organizations in need of transformational change or significantly updated business models will not recognize it or ask for help, preferring instead to keep funders and donors thinking that all is well. Thus, funders will need to play a proactive role in creating incentives for organizations to undertake this level of exploratory thinking.

- **Rethinking programs.** With respect to public programming, we see several strategic opportunities, depending on the organization and the cultural focus: 1) sorting out digital programming strategies with a long-term view; 2) rethinking live programming to appeal to broader and more diverse audiences; and, relatedly 3) responding to underlying shifts in public tastes and expectations for immersive and interactive experiences.
- **Investing in people.** Those organizations with clarity around their programmatic vision and business model may take this time to rethink their staff structure, their organizational culture, their compensation and benefits structure, their talent acquisition practices and work-at-home policies, and even their board committee structure and policies. Some have been doing this work for several years in the context of DEI efforts, while others restructured in connection with downsizing/cost cutting efforts.
- **Coming together around youth.** Using the pandemic as a springboard for evaluating the landscape of Creative Youth Development opportunities in Metro Detroit and developing a higher level of coordination in program delivery, and exploring new models for employing full-time teaching artists to support students in-school and after-school.



## SECTION 6

# Lessons Learned

### **What have arts and cultural organizations learned about capitalization?**

The sector-wide discourse on good capitalization practice dates back a good 10 years at this point, but it took a pandemic to illustrate with alarming clarity why good capitalization practice matters. The capitalization learning opportunities brought on by the pandemic were manifold: the value of reserves and rainy day funds; the limitations of permanently restricted endowment funds; why deferred revenues (e.g., advance subscription sales) shouldn't be spent until they're earned, and so forth. Several Metro Detroit organizations, for example, used the remains of their relief money to start reserve funds.

Beyond this, the pandemic helped to expose why the concentration of capital in a small number of large organizations leaves the vast majority of small and mid-sized organizations, and a few larger ones, without a financial cushion and therefore more vulnerable. Without the forgiven PPP loans, many organizations would be in a considerably more distressed situation than they are now.

Organizations fortunate enough to receive significant funding through the SVOG program or through philanthropic sources also learned something about the need for long-term balance sheet planning. Several of the organizations we interviewed confided that they were unprepared to receive these large infusions of cash in the sense of not having a clear sense of the highest and best use of the funds. In one case, the organization made a conscious decision not to make a quick decision on how to use the funds in order to gain time to build its financial planning capacity. Other organizations that received large grants – sometimes multiple times – were quick to make decisions as to how to allocate these funds – paying down lines of credit or re-financing debt to reduce interest rates, restoring staff pay cuts, rehiring staff or avoiding further layoffs, investing in capital projects, replenishing or starting reserve funds, or investing in artistic projects.

How were these decisions made? What decision tools were used to weigh the alternatives? Interrogating how and why these decisions were made was beyond the scope of our analysis. A detailed retrospective analysis of how large infusions of cash were used, however, would be helpful from a policy analysis standpoint. These lump sum grants offered a rare and important opportunity for building business and capitalization planning skills. Regardless, most organizations acted quickly. Some showed a good deal of sophistication in leveraging the funds to improve balance



sheet health, while others used the funds as relief capital to plug anticipated operating shortfalls for a year or two. The wisdom of these decisions won't be known for several years. Some may be building assets in the wrong order, accumulating reserves at the expense of exploring real change, or spending newly generated liquidity to plug deficits without a strategy to pay for evolving costs in the long term. In any event, the arts and culture sector has just had a once-in-a-lifetime capitalization event that is unlikely to be repeated, and thus should be leveraged for learning purposes. Now would be the time to offer these organizations individualized support in the areas of business planning and capitalization strategy development.

## **The workforce crisis**

As much as organizations experienced the pandemic as an adverse financial event, it was also experienced in terms of its effects on humans – board, staff, volunteers, and contracted workers, often artists. Layoffs, salary reductions, isolation, and financial stress all led to extremely high and sustained levels of stress and burn out. Earlier in 2021, as epidemiological conditions improved and plans were being made for re-opening in the summer or fall months, cultural organizations began hiring. A cascade effect took hold as large numbers of workers changed jobs or left the field altogether. Several Detroit-area organizations experienced multiple departures of key staff members, while others had difficulties re-hiring hourly workers who'd been laid off. Some blamed these difficulties on the availability of supplemental unemployment benefits, which have since ended.

It might be that the pandemic caused culture workers to reflect on their goals in life and work, and that this accelerated career transitions. It may also be that workers' willingness to work for below-market wages has ebbed. Some organizations in Detroit and other cities have moved to restore pandemic pay cuts and increase compensation levels above pre-pandemic levels in hopes of retaining workers.

A large share of the cultural sector's economic value occurs through the exchange of non-monetary resources. In one of these exchanges, arts workers donate services to organizations in the form of unpaid or underpaid labor, in exchange for self-fulfillment. Expert interviewees noted that this phenomenon is exacerbated amongst organizations serving communities of color. The pandemic seems to have accelerated a displacement of activity from non-monetary to monetary exchanges, as more and more workers change jobs to leverage their skills for additional compensation, forcing organizations to increase salaries, as well as to endure the costs of job searches and the hardships of vacancies on other staff. The collateral damage in terms of loss of institutional memory has been severe for some Detroit-area organizations.

The degree to which this 'workforce crisis' is experienced by individual organizations varies a great deal. Some have managed to keep their staffs intact, while others have intentionally restructured. Many have experienced significant departures and



difficulties. At the sectoral level the crisis is undeniable and therefore a matter for funders and other policymakers to consider.

Funders in other cities (e.g., the Barr Foundation in Boston) are stepping into an expanded capacity building role, but in a more holistic way – offering paid coaching for staff, board training, risk capital for programming experiments, salary support (including ‘pay equity’ for staff at community-centered organizations that have historically lacked access to contributed income), professional development, etc.

As is often said, “people are your best investment.” Living up to this principle, however, will require a sea change in thinking about capacity building amongst both organizations and funders. Our analysis suggests that now is the time for a more coordinated and comprehensive approach to investing in people, sector-wide.

## **The role of foundation funders in a crisis**

At the beginning of the pandemic in early 2020 all eyes turned to foundation funders as a source of relief and guidance. As is so often the case, foundation funders carry the weight of cultural policy in the absence of public sector policy leadership at the municipal, state or national level like those in Australia and the UK. In the end public sector support played the larger role in terms of dollars (e.g., PPP, SVOG), but that support was intended as a short-term economic stimulus and is unlikely be repeated. Notably, the public support was not tied to policy-driven outcomes beyond continued employment and short-term economic relief. Private foundations, meanwhile, are able to take a long-term view of the sector and its needs and design systems of support that address specific social, cultural and educational goals.

During the pandemic consortia of arts funders, including private foundations and individual philanthropists, came together in a number of cities like New York, Philadelphia, Boston, Los Angeles and Detroit to address the needs of cultural organizations and, in many cases, individual artists.

This represented a new and important step forward in the practice of collaborative funding. At the same time, most foundations continued making grants on their own. A critical review of collaborative relief programs is beyond the scope of this analysis, but would be valuable in unpacking the various models used and in guiding foundations’ thinking about optimal approaches in the future. Some of the funding models focused specifically on supporting small and mid-sized organizations, and additionally prioritized “pillar” organizations serving communities of color. In other communities, relief funding was open to all. Competitive award processes were used in many cases, although some individual funders awarded relief money to past grantees without an application process.

We encourage foundation funders to use the experiences they’ve had working collaboratively during the COVID-19 pandemic to develop approaches for dealing



with future crises – be they episodic events or crises of a more persistent nature. A beginning list of questions to address includes:

- When is collaborative funding a useful tool – only in a crisis, or in other situations, as well?
- How can funders maintain and build on some of the better practices that have emerged during the pandemic, such as releasing restrictions, extending grant time horizons, improving communications and streamlining reporting?
- Should funders prioritize support for specific organizations and programs that address the needs of children and families, when schools are closed and educational opportunities are diminished? Could these programs and organizations be identified in advance of a crisis? Could such a program be leveraged to bring cultural organizations into a more sustained collaboration around creative youth development?
- Should relief funding be prioritized for specific kinds of organizations, based on budget size or communities served?
- Should organizations that focus on arts practice (e.g., community art centers, music schools, literary organizations) be prioritized for support, so as to allow for a continuation of creative practice while facilities are closed?
- Should organizations dependent on higher levels of earned revenues, and therefore more vulnerable to short-term losses, be prioritized for support?
- Should certain “hub” organizations with digital production capabilities be funded to support other organizations in producing live streamed and digitally recorded programs while venues are closed?
- Should relief funding be distributed through competitive grant programs, or through a different distribution mechanism (e.g., a case management approach, as suggested in our 2020 report)?
- Should the amounts of relief grants be standardized or flexible in size and connected to needs analysis?
- Should relief funding be reserved for specific purposes based on the individualized needs of each organization as they evolve (e.g., risk capital or change capital), or released all at once?
- How might funders, working collaboratively, support analysis and planning to help organizations effectively understand risk, explore scenarios, prioritize spending vs. savings goals, and forecast the impact of decisions?
- Can funders work together now to create a relief funding mechanism for the next crisis, instead of waiting until the next crisis occurs?

The pandemic served to highlight the challenges of supporting a highly decentralized sector in a time of crisis. In many ways foundation funders were the “first responders” and thereby forced to make quick decisions about how to distribute relief funds. Addressing the sector’s present and future challenges relating to financial sustainability and structural inequities in access to resources will undoubtedly require more, not less, coordination and collaboration amongst funders.



## **Capitalization of small organizations and those serving communities of color**

Looking specifically at small organizations and those serving populations of color, it is difficult here to make observations from our data without identifying specific organizations, even if by inference, which we cannot do because of the confidentiality assurance. Among those who were interviewed, there are “haves” and “have-nots.”

Conversations about capitalization tend to revolve around the needs of larger organizations, but we think there are important lessons to be learned from the pandemic about the role of capital in small and mid-sized organizations. Many foundations, including those working collaboratively on relief funding, made a decision to focus resources on small and mid-sized organizations presumably because 1) they are historically undercapitalized due to socioeconomic realities and inequitable funding patterns; 2) they are more likely to serve diverse and less well-resourced communities; and 3) the amount of investment required to address their needs is relatively small in relation to the needs of large organizations. We encourage foundation funders to continue thinking about collaborative funding as a means of capitalizing small and mid-sized organizations in order to bring a heightened level of sustainability to this fragile layer of the ecosystem.

Smaller organizations which did not receive large infusions of cash are fighting for resources alongside everyone else, uncertain how they’ll make next year’s budget. Some cut costs, discontinued programs, received relief funding, and are hoping to emerge from the pandemic in reasonably good shape. By and large they lack access to significant philanthropic resources from individual donors, although some have identified this as a priority for capacity building.

Some organizations serving populations of color have come to rely on foundation funders for a large share of their annual budget. Success in accessing short-term relief funds will not change the basic conditions that cause this dependency. Aside from the “exit strategy” dilemma this poses for funders, these organizations also experience a dilemma in the divergence between the constituents they serve and the sources of their revenues. Their destiny lies in the hands of a small number of foundations, leading staff to spend an inordinate amount of time and energy cultivating these relationships and conforming their programs, operations, and financial models to align with funders’ standards. Ultimately this can impede their self-determination.

Historically, foundations tend to hold organizations serving populations of color to the same standards of financial performance that they hold organizations working in western-based art forms with access to white philanthropy. Assisting these organizations in emerging from the pandemic requires more than relief funding – it requires a rethinking of how they should be capitalized in the long run. Otherwise, they’ll be stood back up on the same shaky ground they were on before the pandemic and remain vulnerable to the next adverse event.





What approaches might funders take, acting collectively, to provide small and mid-sized organizations with the diverse kinds of revenue and capital they need, including: i) unrestricted operating revenue for longer periods of time, in recognition of a historical reliance on institutional funding ii) longer-term risk and change capital to help them develop capacities and business models with the potential to be sustained over time with more diverse revenue, and iii) support for the establishment of adequate cash reserves. What approaches might funders take, acting collectively, to provide incentives to artists and communities to bring forward new artistic programs that diversify the kinds of cultural experiences available to Detroiters? We realize these are not new questions, but they are as urgent as ever.



## **APPENDIX 1: List of Interviewees (2021)**

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:

- Gary Anderson, Plowshares Theatre Company
- Neil Barclay, Charles Wright Museum of African American History
- Russ Collins, Michigan Theater
- Phil Gilchrist, Anton Arts Center
- Rhonda Green, Heritage Works
- Steve McBride, Pewabic Pottery
- Brent Ott, The Henry Ford
- Izegbe N'Namdi, N'Namdi Art Gallery
- Maury Okun, Detroit Chamber Winds & Strings
- Wisam Qasem-Fakhoury, Arab American National Museum
- Oliver Ragsdale, The Carr Center/The Arts League of Michigan
- Leslie Raymond, Ann Arbor Film Festival
- Suma Rosen, InsideOut Literary Arts
- DeLashea Strawder, Mosaic Youth Theatre of Detroit
- Robin Terry, Motown Museum
- Gerry VanAcker, Detroit Zoological Society
- Matthew VanBesien, University Musical Society
- Patricia Walker, Michigan Opera Theatre
- Jenenne Whitfield, The Heidelberg Project

### National/International Thought Leaders

- Adrian Ellis, AEA Consulting
- Priya Sircar, Arts and Culture Officer, City of Charlotte, NC
- Lisa Richards Toney, Association of Performing Arts Professionals
- Zannie Voss, SMU DataArts
- San San Wong and SueEllen Kroll, Barr Foundation



## APPENDIX 2: Interview Protocol

### Intro

*Last summer, we interviewed a diverse cross-section of arts organizations in Southeastern Michigan to understand their financial outlooks and need for support. A little over a year later, we're now following up to see how organizations have fared during the pandemic, what their current situation is, and how their outlook on the future compares to that of a year ago.*

*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. We will not be reporting on individual organizations at all, but rather seek to gain a general sense of the kinds of financial support needed across the sector and other sources of resilience.*

*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?*

### Recap (3 minutes)

*I'd like to start by recapping some of the key points from our conversation last year.*

### Programming Impact (10 minutes)

1. *Briefly, tell me the story of your public program offerings since we spoke last year. [capture unaided response; probes may or may not be needed at all]*  
Probe: *Where are you in the re-opening process?*  
Probe: *What obstacles and other considerations influenced your decisions about when and how to re-open?*  
Probe: *What mission-driven programs were you able to continue during the pandemic, if any? Are any of your youth programs still functioning?*
2. *On a scale from zero to ten, what is your currently level of programming (with ten being your 2019 level of programming)?*
3. *[Optional] During the pandemic, did you develop any new digital programs that you plan to continue into the future?*



4. *[Optional] What types of support would have been helpful for you in developing and rolling out digital programs?*

Probe: *What kinds of support do your digital programs currently require, if any?*

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

Probe: *Will your post-pandemic programs be any different from the programs you offered pre-pandemic? [If Yes] Please explain.*

#### Financial Situation (25 minutes)

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

6. *How did your fiscal year 2020 turn out for you?*

*Next I'd like to ask you about the sources of financial support that helped you make it through the past 16 months since the pandemic hit.*

7. *Were you able to access government support? Please describe the government support you received. [try to get approx. amounts of PPP, SVOG] Overall, what role did this funding play in your ability to navigate the pandemic?*

8. *Were you able to access funding from private foundations? Overall, what role did this funding play in your ability to navigate the pandemic? [include MacKenzie Scott grants here]*

9. *Were you able to access funding from your local donor base? How did individual giving for 2020 compare to 2019? Overall, what role did this funding play in your ability to navigate the pandemic? [probe here on any membership campaigns]*

10. *What role, if any, did your audience or membership base play in sustaining your organization over the past 16 months?*

11. *Did you access any reserve funds? How much? What's left of the reserves you accessed? Have you discussed how those funds might be replenished?*

12. *Did you reclassify any endowment funds in order to use them to cover operating costs during the pandemic? How much? What's left?*

13. *Did you access any other capital funds for operating purposes?*

14. *[Optional, for those who received SVOG and/or MacKenzie Scott grants] What has been your thinking about how to save or spend your large, one-time cash awards?*

15. *What has been the impact of the pandemic on your human capital?*

Probe: *Impact of layoffs on staff? Are you experiencing any difficulties re-building your team?*

Probe: *Impact on morale or organizational culture?*



16. *Was there ever any discussion about major structural changes, such as discontinuing all or some operations, or merging with another organization?*
17. *What is your financial outlook for the upcoming year?*  
Probe: *What are the largest risks or uncertainties from a financial perspective?*
18. *What kind of support are you counting on, or do you most need for the next year?*

Planning (5 minutes)

19. *Have you adopted any new planning approaches or have you acquired any new skills to help your organization plan effectively, despite the uncertainty of the times?*
20. *What are your strategic priorities moving forward?*

Summary Reflections (5 minutes)

21. *Looking back, what carried you through this crisis?*
22. *In terms of organizational learning, what are your key takeaways from the pandemic experience? For example, have you learned anything about what makes your organization resilient?*  
Probe: *Have you gained any insights about how you want to be capitalized in the long run?*  
Probe: *Have you learned about your role in the community or your “community capital?”*

