



# Addressing the Impact of Covid-19 on Greater Washington's Arts and Culture Organizations

## *Opportunities for Collaborative Action*

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### Introduction

The covid-19 pandemic has had a profound disruptive impact on the programs and finances of arts and culture organizations throughout the Greater Washington metropolitan region, that under normal circumstances generate nearly \$4 billion in economic activity and employ 60,000 workers in the region.<sup>2</sup> Since the middle of March 2020, cultural institutions and performance venues have been shuttered, large public and private gatherings have been banned, and public attention and financial resources have been focused on those services deemed essential to maintaining public welfare and coping with the health consequences of the pandemic.

In late May, as the region begins to think about recovery and reopening, arts and culture organizations face an uncertain future. As we move through the multi-phase process of returning to normal, no one is clear on when we will be able to gather for concerts and theater performances once again, reopen museums and galleries, take in-person classes and lessons, or enjoy live dance performances. Most arts organizations rely on revenue from ticket sales, admissions, and other earned income for a significant portion of their budget. And even more than other types of nonprofits, arts and culture organizations

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<sup>2</sup> [“The Economic Impact of Nonprofit Arts and Cultural Organizations and Their Audiences in the Greater Washington DC Region,”](#) Americans for the Arts 2017 study using data from 2015.

generate philanthropic support through galas and special events, most of which have been cancelled or moved on-line for the foreseeable future. More broadly, philanthropic support may be jeopardized by the economic consequences of the pandemic.

In that context of uncertainty, The Morris & Gwendolyn Cafritz Foundation—the largest private funder of arts and culture organizations in the DC region—asked us to assess the state of arts organizations in the Cafritz Foundation portfolio and to identify ways in which the Foundation, ideally in partnership with other funders, could help to stabilize the region’s arts and culture organizations and ensure that they emerge from the pandemic ready to resume their vital role in the region’s economy and community life.

## Methodology

Although the Cafritz Foundation’s arts and humanities portfolio includes more than 80 organizations—and organizations in other portfolio areas have significant arts components, this report is focused on Cafritz Foundation arts and humanities grantees with annual budgets of less than \$10 million. While not an exhaustive analysis of arts and culture organizations in the region, we believe that the organizations interviewed offer a representative sample for understanding the impact of covid-19 across a budget category that offers the greatest opportunity for philanthropy to make a difference.

Between May 13 and May 20, 2020, we spoke with representatives of 28 organizations that included theaters, dance groups, presenting organizations, vocal and instrumental performing groups, and youth-serving nonprofits, many with robust arts education programs. Our findings and recommendations are supplemented by more than 25 additional conversations with other arts organizations conducted by Cafritz Foundation program officers. We also conducted a comparative review of the balance sheets (statements of financial position) of 27 of the 28 organizations we interviewed<sup>3</sup> to better understand their financial situations and potential financial vulnerability. This report summarizes the results of our balance sheet analysis and offers recommendations based on our interviews, with input from Cafritz Foundation staff.

## Balance Sheet Review

After more than two months of cancelled performances, closed facilities, and limited programming, our review of the balance sheets showed surprising financial resilience, with some organizations in a stronger financial position than at the same point last year. However, the review also revealed high levels of financial vulnerability, and organizations may begin to experience significant financial problems, especially after PPP loans end in June, if they are unable to resume normal operations for many months to come. Our analysis focused on two areas: ability to meet current expenses and level of operating reserves.

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<sup>3</sup> One of the interviewees operates as a program of a much larger organization and is not able to produce a separate balance sheet.

**Ability to meet current expenses:** For each organization, we calculated the current ratio—current assets or cash on hand, divided by current liabilities. A current ratio of less than one indicates that an organization does not have enough cash on hand to meet immediate obligations. For purposes of this analysis, we interpreted a current ratio of less than 3 as cause for concern, and a current ratio of greater than 3 as reasonably healthy.

Current Ratio	# of Orgs
Less than 1	3
Between 1 and 3	3
Greater than 3	21
Total # of orgs	27
Median current ratio: 8.24	

Months of Reserves	# of Orgs
Less than 1	14
Between 1 and 3	5
Greater than 3	8
Total # of orgs	27
Median months of reserves: 0.88	

**Level of operating reserves:** Recognizing that the current disruption may continue for some time, we also reviewed each organization’s level of operating reserves divided by monthly expenses. Only 8 of the 27 organizations had more than three months of operating reserves (generally considered to be the minimum level needed to ensure stability). Nine had one month or less, and 7 had no

reserves at all.

**Limitations.** While useful as a snapshot of the financial condition of a reasonably representative set of organizations, this analysis has significant limitations. Among the most important:

- The dates of balance sheets varied widely, from the end of February to mid-May, and may not collectively reflect the full impact of the pandemic and shutdown. The widely varying dates suggest that some organizations are not able to produce timely financial statements.
- The definition of operating reserves is not commonly understood, and operating reserves are not always indicated on financial statements. For organizations without designated operating reserves, we made estimates based on liquid unrestricted net assets.
- There are inconsistencies across organizations in accounting for federal Payroll Protection Program (PPP) loans, and some treatments artificially inflate current liabilities and impact the current ratio unfavorably.
- We used pre-pandemic budgets to calculate months of reserves. However, many organizations have substantially reduced expenses by laying off staff, cancelling contracts with artists, and cancelling or postponing events. Existing operating reserves can provide a longer lifeline for organizations with reduced operating budgets.

## Organizational Impact of Covid-19

As noted previously, between May 13 and May 20 we interviewed representatives of 28 arts and culture organizations to assess the impact of covid-19 on their programs, finances, and operations. We asked the following questions:

- Have you reduced staff?
- Are contracted artists continuing to be paid?
- How are you helping artists who are out of work?
- Did you apply for SBA or PPP loans, and was your application successful?
- Are you offering online content, and is that content generating revenue?

- Do you have a financial and/or artistic plan for moving forward?
- What type of capacity-building support do you most need?

Responses to these interview questions have been supplemented by information gathered by Cafritz Foundation program staff as part of the March to June 2020 grants process.

**Staff reductions.** Of the 49 organizations for which we had data, nearly two thirds (32 organizations) continued to pay all staff. Seventeen organizations reported full or partial layoffs. A handful made across-the-board salary reductions ranging from 20% to 50%.

**Contracted artists.** More than half of the 35 organizations that contracted with artists reported that those contracts for which work had been fully or partially completed had been honored, but contracts for the future had been cancelled and artists were not being paid. Some received partial payments or cancellation fees or had been hired for other programs or to create online content.

**Financial relief.** Thirty-eight (more than 77%) of the 49 organizations for which we had data had received funding through the federal Payroll Protection Program, which accounts for the relatively large number of groups that maintained their staff through the pandemic. A handful of organizations had received relief funds through DC or Maryland programs. Many groups will be forced to make additional layoffs when the terms of their PPP loans expire in late June.

**Online content.** All organizations (literally 100% of the sample) are grappling with challenges related to online content. For some, the challenge is to demonstrate relevance and maintain visibility while their organizations are shut down; others are working to translate existing programs into online formats, dealing with contractual and intellectual property barriers and production limitations that affect the artistic quality of online offerings. Most organizations are struggling with how to earn revenue from online content, with online instruction showing the most stability in maintaining previous earned income levels.

**Planning for the future.** Uncertainty about the duration of social distancing are creating planning challenges for all organizations. Most are engaging in complex contingency planning for multiple financial and programming scenarios.

## Capacity-Building Needs

Technology was cited by an overwhelming number of organizations as their highest priority capacity-building need. Technology was mentioned specifically by 25 of 34 organizations responding to the question. Circumstances and existing capabilities vary widely by organization. Specific needs and issues, all mentioned multiple times, include:

- Technology production equipment and staff training
  - *“We need technology funding to help with professional level streaming, video editing, and upgraded equipment. We also plan to convert a small classroom into a studio space for recording, which will require hiring artists with professional knowledge/experience.”*
- Upgraded websites designed to better showcase online offerings and video content
- Updated software and technology for live-streaming content.

- *“Technology is key to our future – we’ll be working remotely for a long time. We have to learn what is the platform, technology and cost to make art as close to the live performance as possible. Right now there is a gap in technology to do things without a lag, distortion, and we don’t know where even to look. New models might create more accessible and affordable options.”*
- Help with contractual and intellectual property challenges related to streaming and recording performances
- A centralized regional website or app that could showcase and stream the content of multiple organizations, similar to [ALL ARTS](#), an initiative supported by the Andrew W. Mellon Foundation and created by WNET, New York City’s PBS station.
- Mobile technology that allows online teachers to pivot between in-person and online instruction
- Cameras, lighting, and other production equipment to increase the quality of online content
  - *“Additional technology and equipment will be critical for live streaming, along with professional development training for staff to support this new way of working.”*
- Tablets, laptops, and hotspots (mobile wireless pre-paid internet connections) to increase access for children and adults from low-income households
  - *“We need to acquire technology to play and record together. We also need access to computers, broadband, and wi-fi for low-income students and families.”*
  - *“Technology support to manage new online requirements: sound, lights, safety, captioning, and all questions of accessible and safe programming is key.”*
- Business planning, marketing, and branding support to help organizations understand how to generate revenue from online content
- Challenges with integrating ticketing and customer relationship management software with online platforms to facilitate ticketing for both live and online events

While strategic planning, financial analysis, business planning, marketing support, and fundraising support were each mentioned several times, the appetite for traditional consulting engagements stretching over many months appears to be limited. Rather, organizations are looking for quick, brief consultations and actionable advice that they can implement right away.

Several organizations mentioned their concern that audiences would not feel comfortable returning to performance venues and expressed a need to better understand best practices in providing safe experiences for audiences, artists, and staff.

No issue was mentioned with as much frequency or urgency as technology and online content.

## Finding Opportunity in Crisis

When we began the process of conducting interviews, we expected to find organizations in crisis, perhaps even struggling for their very existence. While the challenges are significant and should not be understated, our interviews revealed a group of organizations that are resolute in continuing their missions and finding opportunity in this moment. Arts and culture leaders are approaching this challenging environment with resilience and creativity. As one interviewee commented, “We’ve always had to get by on a shoestring, but creativity has been our strong suit.” Smaller, more nimble organizations seemed to be making this transition more quickly.

Many organizations recognize that websites, social media platforms, and overall digital engagement strategies that may have been adequate before the pandemic are insufficient to meet the demands of streaming online content and are embracing the opportunity to turn that around. And many are also recognizing the necessary shift to online programming as an opportunity to reach wider audiences, democratize access, and contribute to the human connection and emotional healing our communities will need as we recover from the covid-19 crisis.

## Recommendation

The urgent need for arts and culture organizations to invest in the technology needed to successfully deliver online content and programs is essential to the transformation and survival of a critical sector of the DC region's economy that has billions of dollars of economic impact, employs tens of thousands of people, and contributes immeasurably to the region's quality of life.

We recommend that the Cafritz Foundation and other interested funding partners explore the creation of a collaborative fund, most likely housed at the Greater Washington Community Foundation, that would make grants to build the capacity of the region's arts and culture organizations to engage audiences online and deliver digital content.

In addition to meeting a critical need for arts and culture organizations, we believe a collaborative approach (rather than aligned or individual grantmaking) makes sense for at least three reasons. First, it would create an opportunity for shared learning around an area of technical assistance and capacity-building in which few funders currently have knowledge or expertise. Second, depending on how it is structured, a pooled fund allows for the possibility of accelerated grant decisions not tied to the board schedules and application cycles of participating funders. Finally, it creates a single application process and point of contact for applicants, rather than forcing them to navigate applications and timelines of multiple funders

That said, we estimate that many organizations may each need to spend tens of thousands of dollars to build digital capacity, so a collaborative fund may not be able to address the comprehensive needs of large numbers of arts and culture organizations, and groups may still end up seeking funding from multiple sources to navigate this transition.

Creating a new pool of restricted funding may seem counterintuitive, since many organizations still cite unrestricted general operating support as their most pressing need. However, grants from a fund would preserve general operating support or other unrestricted revenue that otherwise might have been used for these essential transitions. And at a time when many organizations will be facing pressure to cut staff and reduce programs, we believe that leaders will welcome restricted funding to make these critical investments in the future.

While we noted that the needs and circumstances of organizations vary widely, we did hear enough common problems and questions that we believe there may be some opportunity for collaboration, peer learning groups, and information-sharing and resource referrals among organizations. Reviewing applications submitted to a collaborative fund would help surface areas of common interest and opportunities for organizations to work together.

## Conclusion

The challenges facing arts and culture organizations are enormous. One recent national white paper suggests that the national impact of covid-19 on cultural organizations will be a net loss of \$6.8 billion—the equivalent of a 25% operating deficit for the average organization,<sup>4</sup> and goes on to predict that many organizations won't recover.

But organizations that are willing to innovate have an opportunity to recommit to their missions and address issues of equity and access in ways that are long overdue. Online programming and digital engagement are not simply a short-term and pale substitute for traditional performances and experiences. Aging donors, people with disabilities, and people and communities that are geographically and economically marginalized will have a greater opportunity to engage with online content—and may even have a better experience.

In our short conversations with dozens of arts leaders, the promise of these new approaches was already evident. We heard from organizations that were able to re-engage former patrons and participants who had moved out of the area, that were newly engaging with audiences around the world, or that were working for the first time to reduce inequities that were creating barriers for participants. That is the promise in the current crisis, and philanthropy has an opportunity to help arts and culture organizations in the DC region build a more accessible, inclusive, and equitable future.

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<sup>4</sup> [“Arts and Cultural Organizations: In It for the Long Haul,”](#) May 2020 white paper from SMU Data Arts and TRG