

# THE COVID-19 ECONOMIC LOSS TO THE NON-PROFIT ARTS AND MUSEUMS OF MONTEREY COUNTY

March 2021



## Background

**In 2018, the total economic impact of the creative cultural sector in Monterey County was \$1.6 billion, inclusive of the economic activity of sector enterprises and the economic activity of audiences and participants who visited these enterprises.** The sector was directly responsible for 8,150 Full Time Equivalent (FTE) jobs. Between 2015 and 2018, the sector grew by 9%. It was the 8<sup>th</sup> largest employment sector in the County.

- The County's entire creative cultural sector encompasses all creativity-based jobs and includes many North American Industry Classification (NAICS) categories. In addition to the performing arts and museums, it includes individual artists and promoters of artists, film and sound recording, architecture, design, and the wide assortment of fine crafts such as furniture making, metal work, and jewelry making. It includes portions of advertising, public relations and related services focusing on graphic design as well as portions of software development, for example, game development. It includes book publishing. Parts of pre-K-12 and higher education are included – arts instructors, campus galleries and performing arts entities.
- In addition, it impacts dozens of other industries. Real estate is heavily impacted by the creative cultural sector, as is travel and tourism. Retail, full-service restaurants, insurance, and many other industries benefit from a strong creative cultural hub.

Within the creative cultural sector, two NAICS categories have been especially hard hit by Covid-19-related closures: performing arts and museums. While some others within the sector have been able to continue work, these two sectors have been shuttered since March 2020. In Monterey County this has been a huge economic loss.

This research was constructed to examine the loss. It draws upon and updates the IMPLAN analytics of the County's creative sector previously conducted in 2014, 2017-18 to assess what then was the annual growth of the arts within the County. This uses the same analytics as those previous studies, focusing here exclusively on the two subset segments of the performing arts and museums. The Form 990s of all Monterey arts organizations and museums<sup>1</sup> were used as a baseline. A survey was completed by nearly every Monterey County arts organization and museum. US Economic Census and BLA data was further used to inform the overall analysis.

*Prepared at the request of the*



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<sup>1</sup> This study does not include the activities of the Monterey Bay Aquarium. It does include history and art museums.

## Findings

### Workforce Loss

The performing arts and museum workforce diminished by 72.5% in 2020 as compared to 2018, including direct, indirect, and induced jobs.

#### *Staff workforce loss*

FTE JOBS	2020 performing arts and museum jobs	% Loss since 2018	2018 performing arts, and museum jobs	2018 all creative cultural sector jobs
Direct	830	72.5%	2,648	8,150
Indirect	471		2,870	4,052
Induced	181		1,106	2,076
<b>Total Effect</b>	<b>1,482</b>		<b>6,624</b>	<b>14,278</b>

This does not include loss of wages to workers still employed in the field. Employees may have been furloughed or taken reduced pay. Some smaller and founder-driven organizations consider themselves “employed” but without salary.

Most of Monterey County’s nonprofit performing arts and museum organizations draw heavily upon contracted artists for their performances and programs. Thanks to virtual performances and some limited educational distance/virtual learning, they were able to provide a bit of income for 14% of the artists they had previously contracted, however 567 artists have lost contract work due to Covid-19 closures.

#### *Loss of arts workforce, contracted artists*

Contracted artists	2020	2018	% decline
	95	662	86%

## Operating Loss

The two Monterey County creative cultural subsectors evaluated here had an output of \$30,406,375 in 2018. Today, based on data from Q2 2020 and survey data provided by the subsector organizations, the direct economic output decreased by 69%.

Output is the combination of all organizational expenditures and how these ripple through the County by purchases and services paid for by these organizations. With limited expenditures came a significant drop in indirect and induced impacts on other businesses in Monterey County.

### *Output Model*

Impact Type	Direct	Indirect	Induced	Output
Direct effect, performing arts and museums, 2020	\$11,118,093	\$166,771	\$88,945	\$11,373,809
Direct effect, performing arts and museums 2018	\$29,693,727	\$475,099	\$237,549	\$30,406,375
Percent decrease in output				69%

## Operating Shortfalls

To assess organizational capacity to sustain through and beyond the impact of Covid-19, revenues and expenses were tallied. The first finding evident is the net shortfall organizations realized, even as they attempted to eliminate all unnecessary expenditures. This in turn resulted in a 19% loss in their assets that they drew down in 2020.

Examination of revenue streams showed that organizations in Monterey County barely earned any income in 2020. The decrease in earned income (ticket sales, tuitions, contracts for service) was a 93% drop from 2018.

Monterey County nonprofit performing arts and museum organizations realized 32% of their total revenue from earned income in 2018. In 2020, earned income was only 7% of total revenue.

In 2018, contributed income was 63% of earnings for organizations. In 2020, 81% of total revenue came from contributions.

In 2020, donors stayed with these organizations, and government funding assisted many. The cumulative decrease in contributions and grant support showed only a 19% drop from 2018.

*Income to Expense Model, 2020 compared to 2018.*

	2020	2018	Percent decline
<b>Earned Income</b>	\$639,842	\$9,375,442	93%
<b>Contributed Income</b>	\$9,005,716	\$18,753,256	62%
<b>Total of Above<sup>2</sup></b>	\$9,645,558	\$28,128,698	66%
<b>Expenses</b>	\$11,118,093	\$20,214,716	45%
<b>Asset Growth/shortfall to be made up from reserves, investments</b>	(\$1,472,535)	\$45,580,398 combined assets end of year	3% loss in asset value

Will earned income rebound to be roughly a third of budgets, after audiences have increasingly adapted to streaming content from which organizations earn only a fraction of what they earned from live events? It will be a steep hill to climb.

A pro forma developed for this study shows that it could take as long as 15 years to rebuild earned income's pre-Covid-19 32% share of revenues, while contributed income is likely to gradually decline as share of total budgets to the pre-Covid-19 63% of operating budget.

This places tremendous stress on asset earnings, which are unlikely to keep up with need. Organizations will need extra "flow" to their cash to support rebounds.

*Rebound scenario, 2020-2035*

Pro Forma Scenario	2018	2020	2021	2022	2025	2030	2035
<b>Earned Income Post Covid-19</b>	32%	7%	8%	15%	20%	25%	32%
<b>Contributed Income and Covid Relief Support</b>	62%	81%	75%	70%	65%	62%	62%
<b>Other Revenue/investment earnings/or loss to net assets</b>	6%	13%	17%	15%	15%	13%	6%

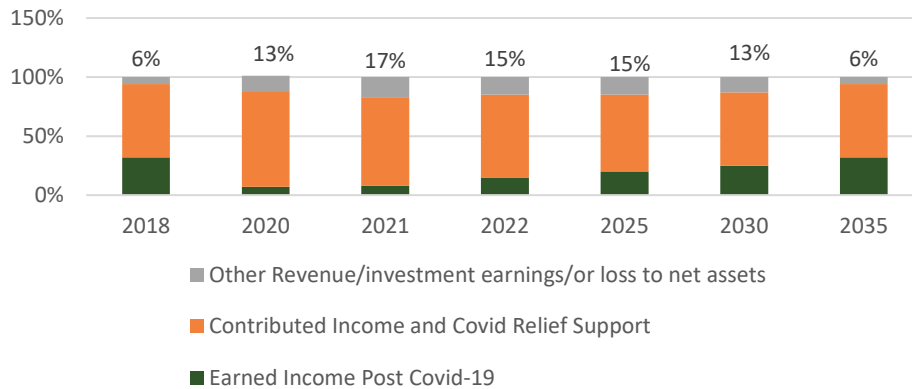
To determine the stress on combined assets that a return to 2018's "normal" may require from the majority of organizations in Monterey County that are small or midsized, a second pro forma was constructed. It examined for organizations with assets under \$2 million, which represents roughly three quarters of the performing arts and museum organizations in the County.

The combined assets of organizations each with an asset base under \$2 million is just under \$12 million, with an average of \$188,679. This represents approximately 73% of performing arts and museum entities in Monterey County. Entities with assets over \$2 million have combined assets of approximately \$37 million. The average asset base for these is \$4.625 M.

Applying the above pro forma to the 73% of organizations with assets under \$2 million per shows the following scenario:

<sup>2</sup> Does not include endowment investment income.

### Pro Forma: Return to Baseline Revenue Stream Proportions for Organizations with less than \$2 M Assets



*Pro Forma Capacity to Rebound, need to draw upon assets as earned income gradually increases to 2018 levels.*

Pro Forma	2020	2021	2022	2025	2030	2035
<b>Combined Assets of Monterey County small and midsize arts organizations</b>	\$12,000,000	\$11,055,959	\$9,637,390	\$6,851,474	\$3,462,849	\$2,932,986
<b>Less draw down needed while earned income gradually increases</b>	(\$1,472,535)	(\$1,879,513)	(\$1,445,609)	(\$1,027,721)	(\$519,427)	(\$175,979)
<b>Balance</b>	\$ 10,529,485	\$ 458,923	\$8,191,781	\$5,823,753	\$2,943,422	\$2,757,007
<b>Plus 5% earnings on balance of assets</b>	\$ 11,055,959	\$ 9,637,390	\$8,601,370	\$6,224,945	\$3,090,592	\$2,894,859
<b>Average net asset end of year per org.</b>	\$315,884	\$275,354	\$245,753	\$177,855	\$88,302	\$82,710
<b>Average months liquidity offered by assets, per organization</b>	5	4	4	3	1.4	1.3

The above pro forma does not include debt service or depreciation, which will need to be added to fully reflect the future of these organizations.

In ramp up, it is essential to have adequate cash flow to rebuild. In addition to meeting costs, the organization may need as much as six months liquidity to draw upon to reinvest in marketing and development as well as longer rehearsals for artists who have not worked together in months/years.

Since assets for a number of these smaller organizations include facilities, equipment, musical instruments and costumes, the viability of reducing or drawing loans upon these is slim. At least 30 organizations will be in danger of not being able to fully pull out of the 2020 losses and may not survive. Some may not be able to or choose not to seek loans on their assets and may choose to sell the assets.

## Value Added

Value added is an economic term that equals the difference between its total income and non-payroll costs. These include occupancy, fees for services – accounting, legal, fundraising – on-going operating costs, as well as other purchases and costs incurred to stay in business. While these are normally close to fixed costs, here they were elastic as organizations severely cut back. Ramping back up will mean not only rebuilding artistic and operating personnel and contractors, but rebuilding to afford these essential operating expenses.

*Value added, 2020 compared to 2018.*

<b>Value Added</b>	2018	\$2,365,484
	2020	\$678,173

## Loss in Audience Spending

There are two parts to economic analysis of arts. The first, above, is the impact of organizational operations. The second is the analysis of audience spending related to attendance and participation.

- In 2018/19, the audience for the nonprofit performing arts and museums in Monterey County approached 900,000.
- In 2020, it was 46,288, reached virtually from March onward and thus having no ripple effect within the County.
- Of the audience before and after Covid-19, approximately 69% are from within a fifty-mile radius, with 31% from beyond.

### *Indirect impact, Audience Loss*

	<b>Off-site spending, within 50 miles</b>	<b>Off-site spending, more than 50 miles</b>	<b>Total Of-Site Spending</b>
<b>2018/19 Audience</b>	\$78.6 M	\$70.6 M	\$149.2 M
<b>2020 Audience, assumes ¾ of audience count for the year was actual, pre Covid-19</b>	\$4.4 M	\$2.6 M	\$ 7 M
<b>Percent Loss, Off-site “indirect” impact</b>			95%

Off-site spending leads to additional induced spending.

### *Induced Impact of Audience Loss*

	<b>Induced impact of Off-site spending, within 50 miles</b>	<b>Off-site spending, more than 50 miles</b>	<b>Total Induced by Of-Site Spending</b>
<b>2018/19 Audience</b>	\$1.5 M	\$1.3 M	\$ 2.8 M
<b>2020 Audience, assumes ¾ of audience count for the year was actual, pre Covid-19</b>	\$83,600	\$49,400	\$133,000

### *Impact on the tourism industry*

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|--|---------|
| • Combined indirect and induced impact of visitor spending, 2018:                              | \$152 M |
| • Share of total visitor spending to Monterey County, 2018:                                    | 5%      |
| • Jobs made possible by visitor spending, “Indirect and induced”:                              | 6,440   |
| • Share of total tourism jobs <sup>3</sup> made possible by performing arts and museums, 2018: | 24%     |

Combined indirect and induced impact of visitor spending, 2020:	\$7.1 M
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<sup>3</sup> “Tourism-related jobs include workers in tourism related industries by NAICS code, as reported by Monterey County Travel Impacts report April 2020. These include accommodations and food services, recreation and sightseeing, retail, and ground transportation jobs.



## Tax Loss

- Tax revenues derived from museums and performing arts was approximately \$16.9 million in 2018, inclusive of direct, indirect, and induced tax revenues. \$6.9 million stayed in Monterey County and the balance went to the State of California.
- In 2020, total tax derived from the operations and audiences of the performing arts and museums in Monterey County was \$1.3 million, a 92% loss.

## Social Cohesion Loss

Social cohesion loss is a “mental loss” rather than a tangible financial loss, but it is important when it comes to the arts and other social amenities that bring diverse people together. Cohesion is created by community social capital, the “norms and trust and facilitate actions of cooperation for an annual benefit” among people who, through the capital, build a share social identity. It is evidenced when socio-economically, geographic, gender and age diverse groups of people come together and through shared experience get along and work to better their community. A music festival is social capital. First Night is social capital. 1<sup>st</sup> Friday art walks are social capital.

A 2015 European study found that being able to participate in such events has a mental well-being value of \$8,670 US dollars per year<sup>4</sup>. Economists often factor this as a willingness to lose the same amount in household income or to expend this much on a vacation to be able to recognize the social cohesion. Others have equated this to the amount that would need to be spent on marketing and positioning the community to achieve positive “great place to live” ratings.

Using the study finding that 69% of participants live within a 50-mile radius, the social cohesion value retained by Monterey County had significant impact to the County, drawing people together and creating a sense of shared community. This intangible good-will helps communities through tough times. Most of that benefit was lost in 2020.

### *Social cohesion loss*

<b>Social Cohesion Benefit to Monterey County</b>	
<b>2018 Mental Value of Social Cohesion</b>	\$5.4 B
<b>2020 Mental Value of Social Cohesion</b>	\$401 M

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<sup>4</sup> Johannes Orłowski and Pamela Wicker, The monetary value of social capital, in the Journal of Behavioral and Experimental Economics, Volume 57, August 2015, Pages 26-36.

## Loss of Volunteers

Volunteers are fundamental to the operations of financially sound nonprofit arts organizations. In many smaller organizations, key staff positions are held by volunteers. In almost all performing arts organizations and museums, volunteers play crucial roles as ushers, docents and tour leaders, and other positions that would have significant budgetary impact.

Building a volunteer corps takes years, training programs, and a strong partnership between organizations and their volunteers. When volunteer positions are lost, many will search for new ways to volunteer and give their time and will then not be available to return.

The volunteer support base for the performing arts and museums in Monterey County was equal to 2,438 FTE positions in 2018. This saved these organizations a total of \$172 million at the median FTE salary in Monterey County.

In 2020, only 516 FTE positions could be filled by volunteers, a savings of \$36 million. Rebuilding the arts will require regaining and potentially exceeding the number of volunteer positions lost, to save organizations even more as they apply their existing cash flow to mission-central programs and services.

## Loss of Arts Education

Monterey County's performing arts organizations and museums reached a total of 83,000 students K-12 in 2018. The County has a total of 78,000 students in 24 school districts, this means that the arts and museum organizations served every district, reaching more students than are enrolled in public schools, ensuring that virtually every student had some exposure to the arts.

In 2020, and largely through virtual outreach, the County's performing arts and museum organizations continued their work in arts education, and were able to reach 22,451 students, or approximately 28% of all public-school students in the County.

## Putting the Loss in the Context of the Entire Creative Cultural Sector in Monterey County

Performing arts and museums are the only solidly non-profit segments of the creative-cultural sector, and are the only portion of the sector for which the loss of in-person customer base led to virtual shut down. Other segments of the creative economy such as architecture, graphic design, photography, book publishing, IT game design, etc., all were able to continue, though at a lower level of employee earnings, lower level of value added and output, and somewhat lower employment. The other segments of the creative economy were able to continue to earn revenue while performing arts and museums were not.

*Employment loss, performing arts and museums compared to full creative sector*

FTE JOBS	2020 all creative cultural sector jobs	2018 all creative cultural sector jobs
Direct	5,934	8,150
Indirect	2,949	4,052
Induced	1,976	2,076
<b>Total Effect</b>	<b>10,859</b>	<b>14,278</b>

There were a total of 8150 creative sector jobs in 2018, compared to 5934 FTE creative sector jobs in 2020. Almost all the loss of jobs came from losses within the performing arts and museums, followed by individual artists, writers, and performers. Separate from the performing arts and museums, the sector lost the equivalent of 399 FTEs. This can be actual job losses or contraction of full time into part time or occasional employment.

2015 Creative Cultural Sector Employment	2018 Creative Cultural Sector Employment	2020 Creative Cultural Sector Employment
<b>7,379</b>	8,150	5,934

In 2018, the total creative cultural sector ranked ninth within Monterey County for employment. It now ranks 11<sup>th</sup>.

*Overall loss to the sector*

Impact Type	Employment	Labor Income	Total Value Added	Output
2018 TOTAL IMPACTS				
Direct Effect	8,150	\$355,807,848	\$515,921,379	\$871,729,227
Indirect Effect	4,052	\$209,926,630	\$275,003,885	\$484,930,515
Induced Effect	2,076	\$99,626,197	\$144,457,986	\$244,084,183
Total Creative Industry Effect	14,278	\$665,360,675.00	\$935,383,250.00	\$1,600,743,925
Audience Effect <sup>5</sup>	6,440			\$152,000,000
TOTAL ALL	20,718			\$1,752,743,925
2020 TOTAL IMPACTS				
Direct Effect	5,934	\$245,222,550	\$356,639,334	\$601,861,884
Indirect Effect	2,949	\$294,487,398	\$191,298,681	\$485,880,079
Induced Effect	1,976	\$85,363,200	\$11,856,000	\$97,219,200
Total Creative Industry Effect	10,859			\$1,184,961,163.00
Audience Effect	301			\$7,100,000
TOTAL ALL	10,558	Percent loss to the total sector: 32%		\$1,196,206,116

<sup>5</sup> These are the indirect and induced jobs and related income, v.a., and output made possible through the off-site spending of audiences/visitors.

## Conclusion

The nonprofit performing arts and museum sub-sectors of the creative cultural sector are its most vulnerable components. While every facet of the creative cultural sector – as indeed, every facet of the economy – has been negatively impacted by Covid-19, these two have been especially hard hit due to lack of reopening and, even after there is reopening, potential need to redo performance venue ventilation systems, and reduce audience counts and daily museum attendance. The artistic loss is palpable: artists have stopped working within the sector, and it is possible that many have taken other employment or have moved elsewhere to work. It will take months to rebuild the artistic ensemble and creative rapport that wows audiences – and these organizations will not have months to do it. When they are able to open, they will need to move rapidly to regain earned income, which has been their largest loss. Box office admissions will in turn lead to a rebuilding of visit-related spending that had previously been outstanding for the tourism industry in Monterey County as well as providing significant tax revenues for the County. The challenges in doing this will be huge, and most of the midsize and smaller organizations in the County lack the liquid assets or borrowing power to fuel this rebound. While these organizations need immediate support to simply keep the lights on, they will need even more support to turn the bright stage lights back on. It will be a multi-year task.