

# *Birth and Mortality Rates of Arts and Cultural Organizations (ACOs), 1990-2010*

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A report prepared for the National Endowment for the Arts

A project of the Initiative for Sustainable Arts in America at the Hauser Institute for Civil Society, Harvard University

Prepared by The Foundation Center and the National Center for Charitable Statistics, The Urban Institute

This project was supported in part or in whole by an award from the *Research: Art Works* program at the National Endowment for the Arts: Grant# 12-3800-7002.

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## Executive Summary

Nonprofit organizations devoted to arts and culture can be found in nearly every community in the United States. The most well-known of these organizations are long-lived and financially stable, but turnover has been substantial within the nonprofit sector overall. While some institutions are perceived as permanent fixtures in each landscape, there is considerable churn, as well.

This study focuses on key factors associated with the mortality and long-term survival of nonprofit arts and culture organizations (ACOs). The dominant factors associated with long-term survival relate to revenue and assets. This study represents the initial piece of a larger research effort, *The Initiative for Sustainable Arts in America*.

Drawing on National Center for Charitable Statistics data sets, based on IRS Form 990 data, this study includes comparative, statistical portraits of 20-year trends (1990-2010) in the numbers and types of nonprofit arts organizations present in 6 U.S. metropolitan areas: Atlanta, Boston, Chicago, Detroit/Ann Arbor, Miami, and the San Francisco Bay Area.

Across these regions, several patterns emerge from the data: while the majority of ACOs active in 1990 were also active in 2010, each area also saw a substantial number of new ACOs originating within this time period. In fact, in 2010, for every ACO that existed in 1990 and survived until 2010, approximately 2.6 new organizations had been created since that time, on average across the six regions. The study also uncovers interesting differences within the group of ACOs located in these six regions. For example, Atlanta and Boston both saw a much higher percentage of organizations moving into their regions compared to the other four regions, especially Chicago and Detroit.

Overall, the organizational survival rates are roughly comparable across the regions for all three time intervals (1990 to 2000, 2000 to 2010, and 1990 to 2010). Factors related to revenue and assets emerge as important correlates of organizational survival; both total revenue and net assets are strongly associated with continued operations.

The right capitalization structure is also important for organizational survival: having some – but not too much – revenue from contributions is associated with a higher probability of continuing operations during the years studied. In this research, organizations that raised 30 percent to 40 percent of their total revenue through contributions were most likely to survive, whereas those that raised 90 percent or more of their revenue from contributions were most likely to close.

This analysis also considers the impact of non-financial factors on organizational survival, namely artistic discipline, geographic location, and total density of ACOs in any given ecosystem. Humanities organizations tend to have higher survival rates, while literary arts, dance, and multidisciplinary organizations tend to have lower survival rates in some years, but not all.

Surprisingly, the analysis revealed that ACOs located in the suburbs might be more likely to survive than organizations located in urban areas. All told, this investigation uncovered critical new insights related to the survival of arts and culture organizations in major metropolitan areas. These results lay the foundation for a more comprehensive assessment in the future about how more fine-grained factors enable nonprofit ACOs not only to survive, but also to thrive in today's dynamic operating environment.

## Introduction

The following analysis of the birth and mortality rates of nonprofit arts and culture organizations (ACOs) represents an initial part of a larger effort - the *Initiative for Sustainable Arts in America* (Sustain Arts). Led by the Hauser Institute for Civil Society at Harvard University, Sustain Arts is a four-year effort to enhance the nation's cultural infrastructure and empirically analyze the health of six urban cultural ecosystems across the country.

Sustain Arts views "sustainability" as a community's capacity to support the resiliency and long-term vitality of their unique cultural assets, contributing to a more vibrant cultural infrastructure for the nation as a whole. This work does not advocate for the arbitrary growth or contraction of any one organization, business model or discipline, but rather aims to understand how a more equitable distribution of resources and opportunities can strengthen the cultural ecosystem of each region on a collective scale. *Sustinere* is Latin for sustainability and means, "to hold up". By mapping the range of organizations active within each region and the relationships between capitalization of the arts, urban demography, and historical patterns of audience participation, Sustain Arts will "hold up" or highlight organizational structures and practices that best support the arts. In ecological terms, the carrying capacity of an ecosystem equates to the size of the population that can be supported indefinitely given the available resources and services of that unique system. Living within the limits of an organizational ecosystem (culturally focused or otherwise) is greatly enhanced by a comprehensive understanding of the resources currently available, size and lifecycle patterns of the population and the resources each organization currently consumes.

Within this context, "sustainability" does not mean simply maintenance of the status quo, nor is it an effort to thwart natural cycles. Rather, Sustain Arts encourages a broader conception of the term that supports the creation of more adaptive cultural ecosystems that support a diversity of cultural expressions that are responsive to the dynamic nature of today's operating environment, sensitive to organizations' lifecycle phase, and deemed relevant by the constituencies they serve.

Therefore, for our purposes, "sustainable" cultural ecosystems share many if not all of the following characteristics:

- Promotes "bio" diversity and contains a broad mix of organizational models: Large, small, formal, informal, for profit, and / or nonprofit that inspire engagement and long-term stewardship;
- Acknowledges and accommodates each phase in an organization's life cycle through flexible support structures;
- Provides equitable access to a dynamic range of cultural experiences for a demographically evolving population;
- Facilitates opportunities for stakeholders to work together to identify shared goals, mobilize resources and develop tactics to advance the collective health of arts and culture in any given region;
- Demonstrates a commitment to data driven learning and decision making by making use of the rich range of information available about organizations, funding, participation, and demographics;

- Celebrates the creative potential of all communities, communicates the range of values produced by arts and cultural experiences in compelling ways and to diverse audiences; and attracts ongoing engagement with and support for arts and culture;
- Encourages adaptive leaders able to leverage changes in the operating environment and bridge organizational and sector-wide goals.

Given our objectives, one of the key gaps in data integral to understanding the efficacy of existing business models, arts policies and funding practices is the lack of comprehensive statistics and related causation analyses regarding the creation and mortality rates of nonprofit ACOs. To fill this gap, the present study uncovers statistically significant factors that can serve to either help or hinder the creation of more resilient ACOs over time. Our analyses pose four inter-related research questions across six geographic areas from 1990 to 2010:

1. How has the cultural ecology of six key metropolitan areas in the US changed over the past 20 years, as measured by creation and mortality rates for arts and cultural institutions?
2. What do creation and mortality rates begin to tell us about the resource needs of nonprofit arts and culture organizations?
3. What might these creation and mortality rates say about the long-term sustainability of arts and culture in the US?
4. What further research questions does the data suggest we consider as part of the broader research efforts associated with Sustain Arts? What other data is needed to evaluate the sustainability of cultural ecosystems more comprehensively?

Within the context of this analysis, “birth” refers to the number of newly created ACOs in any given period as determined by their IRS “rule date”. In the course of conducting this research a sub-category of organizations were identified and defined not in that they were newly formed but that their finances increased to at least \$50,000, the size required by the IRS to begin filing a 990. “Death” and/or “mortality” signifies an ACO that has terminated (or appears to have terminated) as demonstrated by consistently not filing IRS Form 990.<sup>1</sup> Organizational “persistence” or “survival” simply means the organization continues to exist across the years examined, as demonstrated through regularly filing IRS Form 990.<sup>2</sup>

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<sup>1</sup> The National Center for Charitable Statistics (NCCS) notes that prior to this research the birth and mortality rates of arts organizations had not yet been compiled or analyzed, as it is difficult to measure. Organizations registered with the IRS are supposed to notify the IRS when they formally dissolve. However, many organizations fade away gradually and do not formally notify the IRS. Some organizations may be inactive for a number of years but eventually secure new funding or volunteers and become active again. The IRS periodically mails postcards to organizations that haven't filed a Form 990 for several years. However, many of these postcards cannot be delivered due to outdated addresses.

<sup>2</sup> The IRS Business Master Files include a field (RULEDATE) indicating when registered nonprofit organizations obtained formal recognition of their tax-exempt status by the IRS. NCCS typically uses this as a proxy for when an organization was created. The authors of this research understand the limitations of this designation and the reality that some organizations begin informally without any formal legal structure. Thus, depending on one's definition of “founding,” the ruling date may or may not be adequate as a proxy

## Overview of Methods

This report examines data about ACOs drawn from IRS Forms 990 filed in 1990, 2000, and 2010. ACOs are identified as nonprofits that are coded with an NTEE code “A” as Arts, Culture or Humanities public charities in 1990, 2000, and 2010. The authors recognize that this narrow sample group does not include the full range of nonprofit organizations involved with arts and culture, for example those coded in education. Furthermore, this group deliberately excludes the wider range of organizational models found within the cultural ecosystem, for example for-profits, unincorporated and/or traditional entities, in favor of gaining greater control of the independent variables examined within this discrete piece of research.

Six geographic areas that represent diverse demographics, challenges, opportunities and economies; as well as differences in the general size and scale of cultural organizations were identified by the Project Directors at the Hauser Institute for Civil Society including:

1. Atlanta metropolitan area
2. Boston metropolitan area
3. Miami metropolitan area
4. Chicago metropolitan area
5. San Francisco, Bay Area
6. Detroit (Southeastern Michigan)<sup>3</sup>

The core files used in this analysis represent the most recent return for each organization that filed within the last three calendar years and that covered one of the last three fiscal years. As such, they include forms filed for previous years by late filers and organizations with filing extensions. Thus, they do not represent distinct fiscal years, but instead show the best general idea of the nonprofit financial world in that given year. There may be discrepancies in the data (e.g. errors, omissions, or inconsistencies) due to filing errors, coding errors or other reasons. Please review the NCCS Data Guide for a discussion of the limitations of the data: (<http://nccsdataweb.urban.org/kbfiles/468/NCCS-data-guide-2006c.pdf>). Data sources are files maintained by the National Center for Charitable Statistics based on IRS Forms 990 supplemented with the USDA’s 2013 “Rural-Urban Continuum Codes” (popularly known as “Beale Codes”).

The taxonomy of organizational “types” or in this case artistic disciplines used in this analysis is drawn directly from the schema adopted by the Sustain Arts initiative, which includes: music, theater, dance, visual arts, literary arts, film & electronic media, multidisciplinary, arts education and humanities. The larger research effort associated with Sustain Arts will aggregate approximately sixteen additional datasets in an effort to generate a comprehensive portrait of the cultural ecosystems found in these six regions. These data add complementary detail to our assessment of cultural organizations (for and nonprofit, unincorporated / alternative and/or fiscally sponsored), capitalization (via public and private sources as well as earned revenue), demography and cultural engagement trends. In preparation for processing these data, the Sustain Arts research team, which includes staff from the Hauser Institute, Foundation Center and Fractured Atlas, constructed a project taxonomy that synthesizes the range of categories and coding schemas employed by each data set and complement those most consistently used in practice by arts councils, service organizations, fellow researchers and funders.

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<sup>3</sup> The geographic area of interest for the San Francisco, Bay Area was defined in consultation with local partners as including Sonoma, Napa, Marin, Alameda, San Francisco, Santa Clara, Solano, Contra Costa, San Mateo, Monterey, and Santa Cruz counties. The geographic area of interest for Detroit was defined in consultation with local partners as including Macomb, Oakland, Wayne and Washtenaw counties. The other four areas are defined according to the US Census Bureau’s listing of “Primary Metropolitan Statistical Areas” (PMSA), accessible at <http://www.census.gov/population/estimates/metro-city/99mfips.txt>

To test a set of hypotheses about the factors influencing ACO persistence and mortality, we used simple cross tabulations. As in the charts displayed throughout the report, we considered three dependent variables: whether an organization that was active in 1990 was still active in 2000, whether an organization from 2000 was active in 2010, and whether an organization from 1990 was active in 2010. The independent variables were coded to divide the sample of organizations into groups of roughly equal size, to increase the power of the hypothesis tests. We used the overall model chi-square to test whether an observed relationship is statistically significant. When the independent variable is directional (the constructed categories are ordered in some way), we use Kruskal's gamma to measure the strength of the observed association. Cell residuals – adjusted and standardized – are also used to determine whether individual groups of organizations have survival rates that are statistically distinct from the overall sample.

## Key Findings

Key factors for sustainability relate to revenue and assets. Both total revenue and net assets are strongly associated with continued operations. Having some – but not too much – dependence on revenue from contributions is also associated with a higher probability of continuing operations during the years studied.

Less clear are the impacts of location (urban or suburban) and the total number or concentration of arts organizations in a region. This is a subject for further research, as these initial analyses suggest that suburban arts organizations had a slightly higher rate of survival than did urban groups in all three periods. A related finding was that counties with 151 to 300 arts organizations saw a greater share of those groups remain in operation than did areas with more than 300 arts groups. Urban and suburban areas were examined in unison. Future research will analyze what the optimal population size is in each type of geography. The correlation between discipline type and greater survival rates is statistically significant for humanities groups and with lower survival rates – in some years though not all – for literary arts, dance, and multidisciplinary organizations.

In all six regions, approximately 60 percent of the organizations that existed in 1990 continued to operate in 2010, meaning they filed an IRS Form 990 with revenue of \$50,000 or above in 1990 and again in 2010. The other 40 percent disappeared from the record, either closing, merging, or having revenues fall below the filing threshold of \$50,000. This finding begins to suggest a potential 'carrying capacity' for the nonprofit cultural ecosystem, though additional research is needed to understand the weight and impact of other environmental forces such as policy, funding and engagement trends.

In addition to sharing approximately the same percentage of surviving organizations, all six areas saw a substantial increase in the number of ACOs in the period 1990 through 2010, with the greatest net increase experienced between 1990 and 2000. The rate of growth in new ACOs slowed in the 2000-2010 period.

In all six regions studied, 49 percent or more of ACOs filing 990s circa 2010 were newly formed since 1990. Boston and Detroit also saw relatively high rates of growth resulting from organizations formed before 1990 but new to the financial record in 2010 (suggesting revenue increases compared with earlier years).

When testing hypotheses about what factors are linked with survival, three factors emerge as clearly and positively associated with organizational persistence.

1. **Gross revenue.** Using gross revenue from all sources as a measure of organizational size, there is a strong association between size and survival across all three time periods (1990 to 2000, 2000 to 2010, and 1990 to 2010). Descriptive statistics show that organizations with total revenue less than \$500,000 were more likely to fail in all three time periods.
2. **Net assets.** Looking at net assets as a measure of organizational size instead of total revenue, organizations with greater net assets are also more likely to survive, across all three time periods. This relationship between net assets and survival is somewhat stronger than the relationship between gross revenues and organizational longevity. Building assets while meeting operating expenses is one possible strategy to increase the probability of survival.
3. **Having a moderate percentage of contributions revenue as share of total revenue.** Organizations with a moderate dependence on contributions (between 30% and 40% of gross revenues) are more likely to survive than organizations in general, especially between 2000 and 2010. Conversely, organizations that are heavily dependent on contributions (where contributions are over 90% of revenues) are less likely to survive.
  - Note that organizations that have less than 30 percent of their total revenue from contributions are not more or less likely to survive compared to other ACOs. The largest revenue source other than contributions is program service revenue, although some organizations enjoy investment related income and other types of revenue, such as rents or sale of property. Having high program service revenue is not a detriment to survival, nor is it associated with increased survival rates.
4. **Urban location is not necessarily an advantage over suburban location.** This particular dataset demonstrates that between 1990 and 2010, the mortality rate for urban ACOs was slightly higher than the mortality rate for suburban organizations. This analysis is, with the exception of Detroit and the San Francisco, Bay Area, limited to Combined Statistical Metropolitan Areas so does not include rural areas. This contradicts the hypothesis that urban ACOs are more likely to endure.

In testing our hypotheses, two other characteristics are associated with organizational persistence at least some of the time but are not clearly important in all periods or for all organizations. It is difficult to interpret these results without conducting further research on the causal links and environmental factors that might also be at play. Specifically:

1. **Type or artistic discipline matters sometimes.** Literary arts and dance organizations were less likely than ACOs overall to persist (i.e., continue to file an IRS Form 990) in the 1990-2010 period. Meanwhile humanities organizations (a comparatively broad category) and music organizations had a greater-than-average survival rate from 1990-2010.
  - The results for the separate decades show that between 1990 and 2000, dance and multidisciplinary organizations were less likely to survive than ACOs in general; while humanities focused organizations had a greater-than-average survival rate.
  - From 2000-2010, the only difference with statistical significance is that literary arts were more likely to fail than were ACOs generally.

2. **ACO concentration matters sometimes.** In 2000-2010, an era marked by two recessions and two “slow recoveries,” ACOs located in counties with a medium to large number of arts organizations (between 151 and 300) were less likely to fail than arts organizations overall. By contrast, ACOs in counties with a very large number of arts organizations (over 300) were more likely to fail in the 2000-2010 era. An identical analysis of 1990-2000 produced statistically insignificant results.
  - o Note the relationship is not linear (increasing numbers of arts organizations always associated with increasing rate of failure), nor is it consistent over time. For example, for 1990-2010, the only significant differences were for counties that have very low concentration (less than 50 ACOs) and very high concentration (more than 300 orgs). Counties in-between did not have survival rates that were very different from the overall average over this time period. Comparing the periods 1990-2000 and 2000-2010, the overall “death rates” for ACOs increased, but the increases were larger in very low-concentration counties (14.6% in 1990-2000, 27.9% in 2000-2010) than they were in high-concentration counties (23.7% to 29.5%). This suggests that the overall landscape might change more in areas where the prevalence of ACOs is low, but a full account of these changes must be left for future research.

## Detailed Findings: Creation, Persistence, and Mortality of Arts and Cultural Organizations, 1990-2010

### Change in the Number of ACOs by Metro Region#

This study focuses on changes in the number of nonprofit arts and cultural organizations (ACOs) in the following six metropolitan areas between 1990 and 2010. In descending order by total number of reporting ACOs in 1990, the areas studied were: San Francisco Bay Area (594 nonprofit ACOs in 1990), Boston (364), Chicago (315), Detroit (148), Atlanta (122), and Miami (70).

Across all six metropolitan areas, the number of "reporting" nonprofit ACOs grew significantly between 1990 and 2010<sup>4</sup>. Except for Detroit, the number of ACOs more than doubled in each of the other five cities. Miami experienced the highest rate of net growth over that 20-year period (163 percent), followed by Atlanta (144%), Chicago (141%), Boston (140%), and the San Francisco Bay Area (117%). The number of ACOs in the Detroit/Ann Arbor area grew by 89 percent from 1990 to 2010.

In all six cities, the number of nonprofit ACOs increased most rapidly during the 1990s and slowed during the 2000s, in keeping with overall economic trends in the country during those decades. Except for Detroit, rates of increase during the 1990s varied between 63 percent (Miami) and 77 percent (Chicago). Detroit experienced a 42 percent increase during that decade.

In the decade of the 2000s, Miami and Atlanta experienced the greatest increases in the number of nonprofit ACOS (61 and 49 percent respectively). The other four cities (including Detroit) saw growth rates of between 31 and 37 percent.

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<sup>4</sup> Reporting nonprofit ACOs are those that filed an IRS Form 990 in the year specified. Organizations with revenues below \$50,000 are not required to report.

Figure 1: Total number of nonprofit arts and culture institutions (ACOs) by metro area, 1990, 2000, and 2010

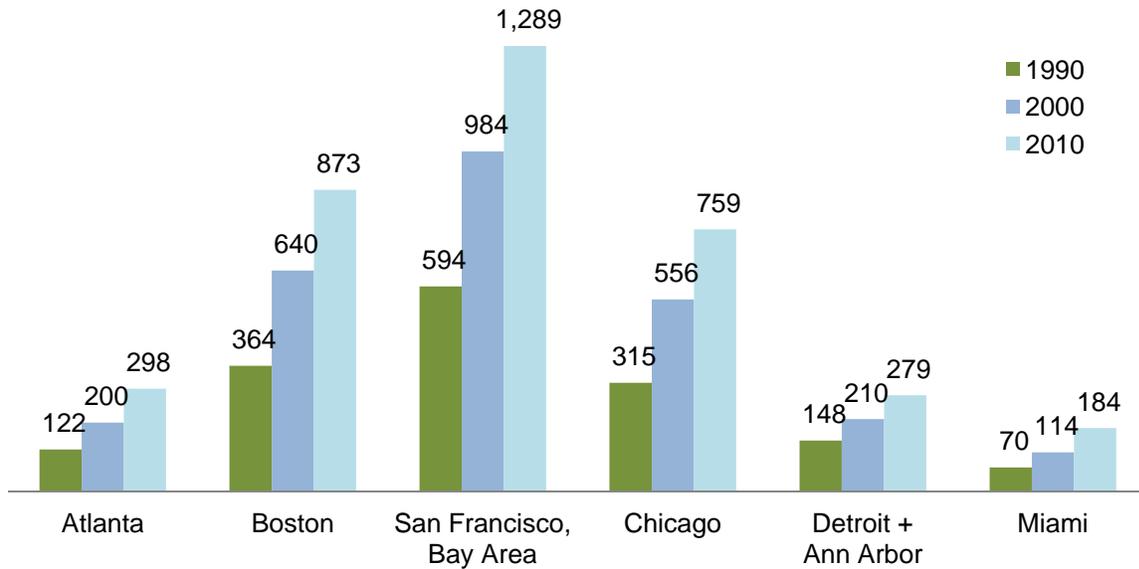
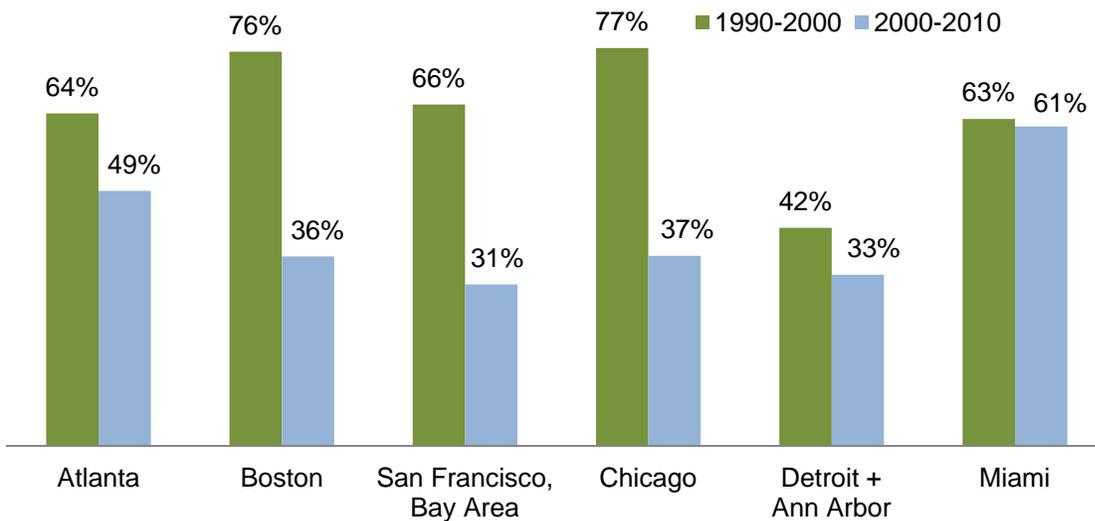


Figure 2: Rate of change in the number of ACOs by metro area, 1990-2000 and 2000-2010



The net increases in the total number of nonprofit ACOs in each city between 1990 and 2010 were the result of the following factors, each of which we will consider in turn:

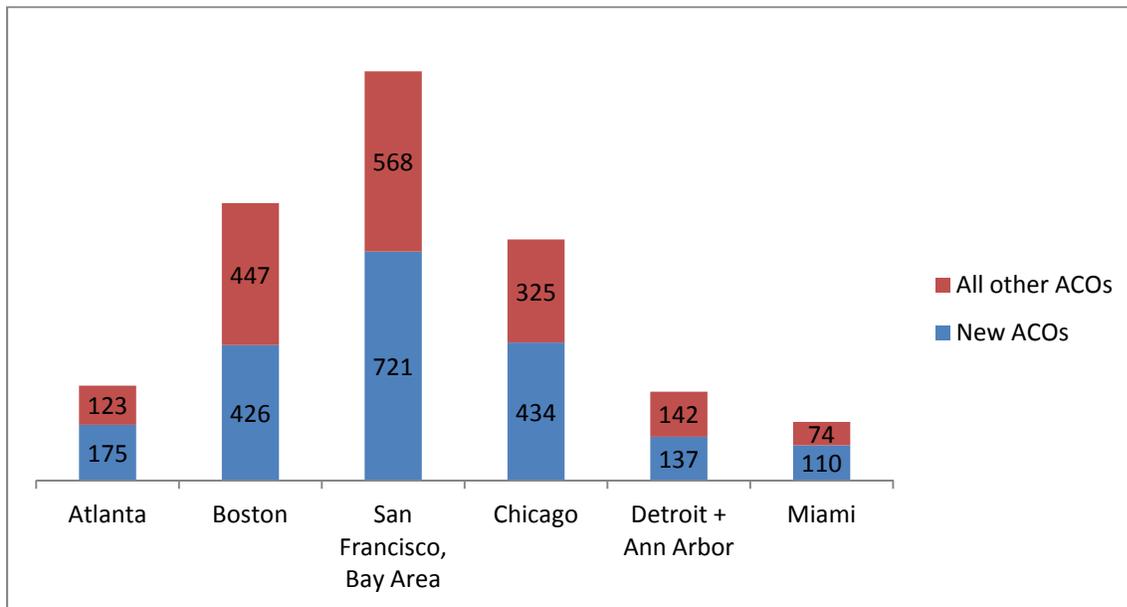
1. The formation of new ACOs
2. ACOs persisting over time (from 1990 to 2010)
3. ACOs moving into the metropolitan area
4. Older ACOs whose revenues increased sufficiently to require filing with the IRS
5. ACOs that closed, merged, or whose revenues decreased below the IRS filing threshold

### Births of ACOs by Metro Region

As suggested by the findings above, a record number of nonprofit ACOs have been established since 1990. In the San Francisco Bay Area alone (home to 1,289 ACOs in 2010), 721 new ACOs were created between 1990 and 2010. In Chicago, 434 new ACOs were created, and Boston followed with 426. In all six metropolitan areas, nonprofit ACOs born after 1990 accounted for around half of all ACOs active in 2010, led by Miami (60 percent), Atlanta (59 percent), and Chicago (57 percent), and followed by San Francisco (56%), Boston (49%), and Detroit (49%).

By metro region, the rate of formation ranges from 49 percent of organizations reporting in 2010 in Detroit to 60 percent of organizations reporting in 2010 in Miami.

Figure 3: Number of ACOs by region, as of 2010

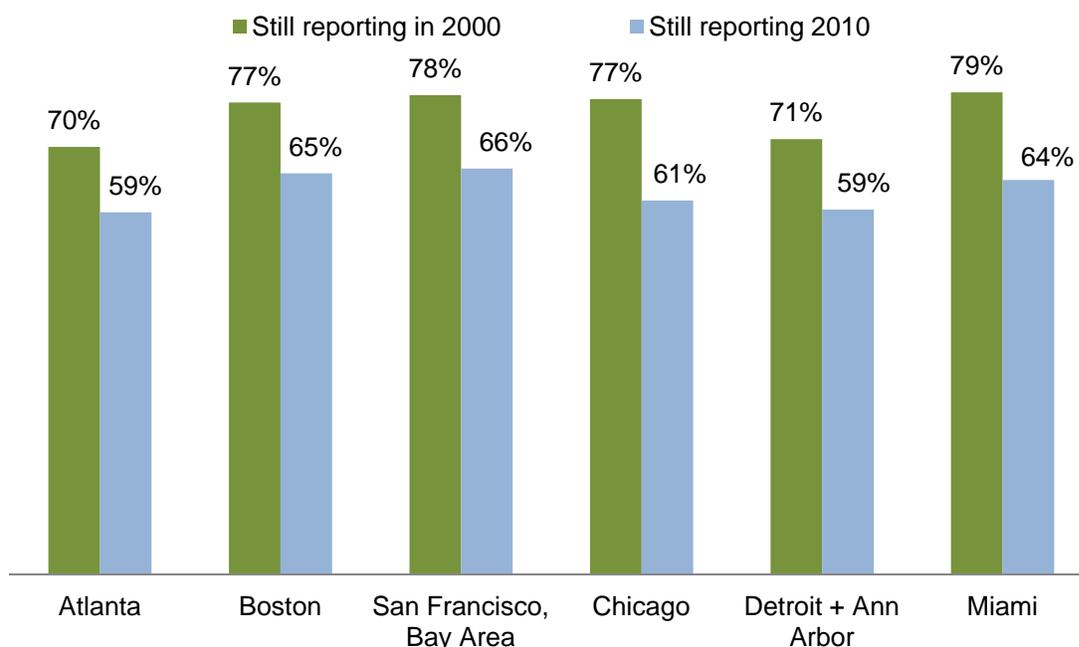


### Persistence and Mortality of ACOs by Metro Region

Across regions, there is very little difference in the percentage of organizations that persisted over time, either when looking at 1990 to 2000 or from 1990 to 2010. Approximately 75% of the ACOs in existence in 1990 persisted through 2000, while an average of 62% of ACOs remained active from 1990 through 2010.

Atlanta and Detroit showed the lowest rates of ACO persistence during the 1990s, at 70 percent and 71 percent respectively, compared with 77 percent to 79 percent in the other four metro areas. Similarly, those two areas showed the lowest rates of persistence from 1990 to 2010, at 59 percent each. Chicago also dipped a bit in the second decade so that the rate of persistence there, at 61 percent, is below the 64 percent to 66 percent experienced in the other three geographic areas.

Figure 4: Percentage of ACOs that filed IRS Form 990 in 2000 and in 2010



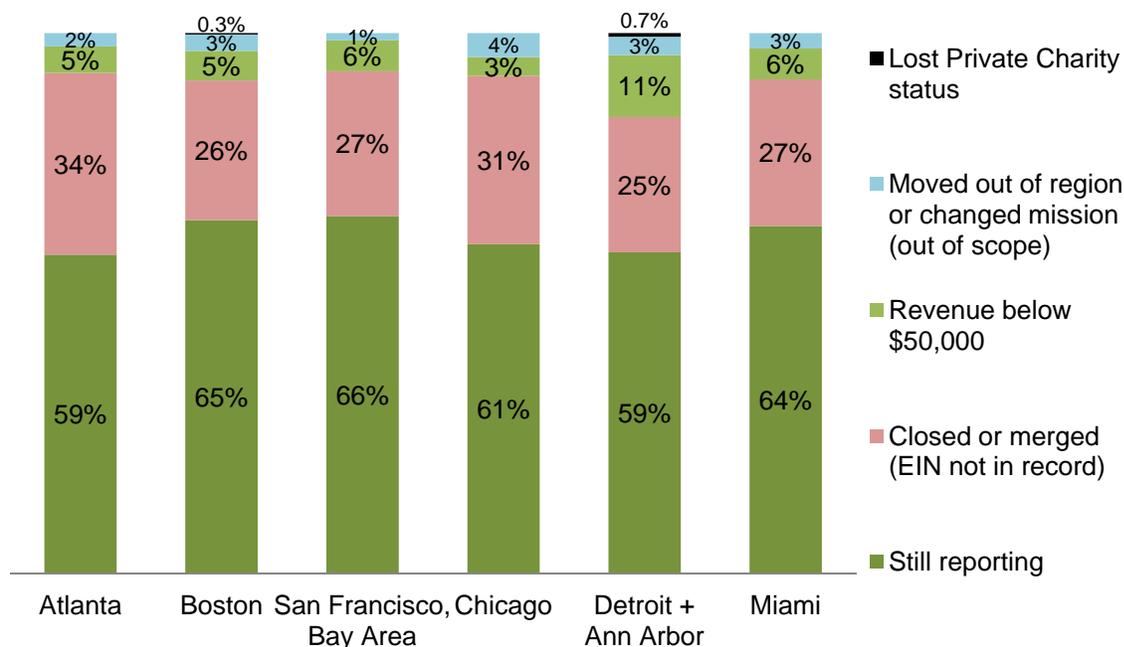
When organizations did NOT continue reporting in later years, there were four primary reasons why. In order of occurrence, they are that the organization:

1. Merged with another organization or closed completely so that the EIN was no longer active;
2. The organization's revenue decreased enough to fall below the threshold required for reporting (\$50,000). They may have remained active but did not report;
3. They may have relocated outside of the geographic region examined or altered their mission so much so that they were no longer classified as an ACO and thus eligible for this analysis, or;
4. Lost private charity status.<sup>5</sup>

By far the most dominant reason for not continuing to file an IRS Form 990 in 2010 was closure or merger (the records do not permit us to determine which).

<sup>5</sup> Some public charities are required to raise one-third of their revenue from public sources, either donors or government grants. Organizations that fail to do that lose their status as public charities and are treated as private foundations, even though they do not make grants. This is a relatively rare occurrence.

Figure 5: Of the ACOs that filed an IRS Form 990 in 1990, filing status in 2010, by percentage

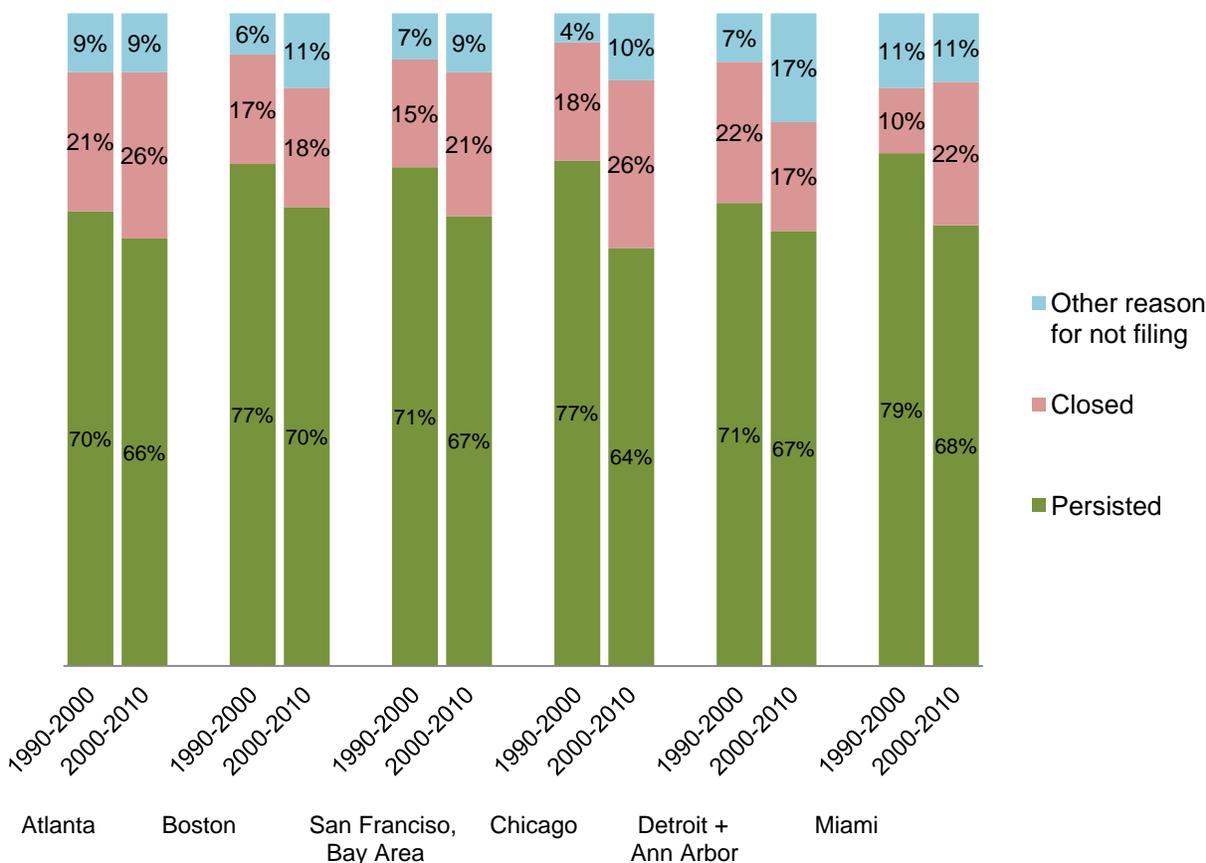


The geographic region with the highest percentage of 1990 organizations still filing an IRS Form 990 in 2010 was the San Francisco Bay Area, where two-thirds (66%) of organizations persisted over the two decades. At 34 percent, Atlanta experienced the highest share of organizations that closed (or possibly merged), while the lowest rates were experienced in Detroit at 25 percent. However, ACOs located in and around Detroit were more likely than in other regions to see revenue in 2010 drop below \$50,000, with 11 percent in that category, compared with as low as 3 percent in Chicago.

In each region, between 1 and 4 percent of ACOs moved beyond the scope of this analysis, either leaving the geographic regions examined or changing the organization’s mission sufficiently that it no longer was classified by an NTEE code A. Just one percent or less lost private charity status in each region.

When looking at 10-year intervals in the twenty-year span, we see remarkable consistency across the regions. In Figure 6, we identified the ACOs that filed an IRS Form 990 in 1990 and tracked the filing status of those same organizations as of 2000. The second column for each city is based on the ACOs that filed an IRS 990 in 2000 and tracks their filing status in 2010.

Figure 6: Persistence of ACOs in 1990-2000 by filing status compared with 2000-2010



Note: These are distinct periods and are not intended to have the same values as shown in Figures 3 and 4, which cover the entire span from 1990 through 2010.

A higher percentage of organizations persisted from 1990 to 2000 than did from 2000 to 2010. Closure rates increased in every city, with the largest jump in Miami (from 10 percent in the 1990-2000 period to 22 percent in the 2000-2010 interval). There was less change in the alternative reasons for not filing, although in Detroit, that increased from 7 percent in the 1990-2000 period to 17 percent in the 2000-2010 interval. As shown in Figure 5 above, Detroit also saw a large share of organizations slip below the \$50,000 filing threshold in 1990 to 2010.

### Newly-reporting ACOs by Metro Region

Figures 7 and 8 illustrate the extent to which arts organizations in 2010 are made up of new organizations formed since 1990, as compared to persisting organizations, including those not captured in the baseline dataset because of revenues below the IRS filing threshold. New organizations dominate in four of the six metropolitan areas, forming around 60 percent of all organizations filing an IRS Form 990 circa 2010.

Figure 7: Percentage of all ACOs by filing and formation status, 2010

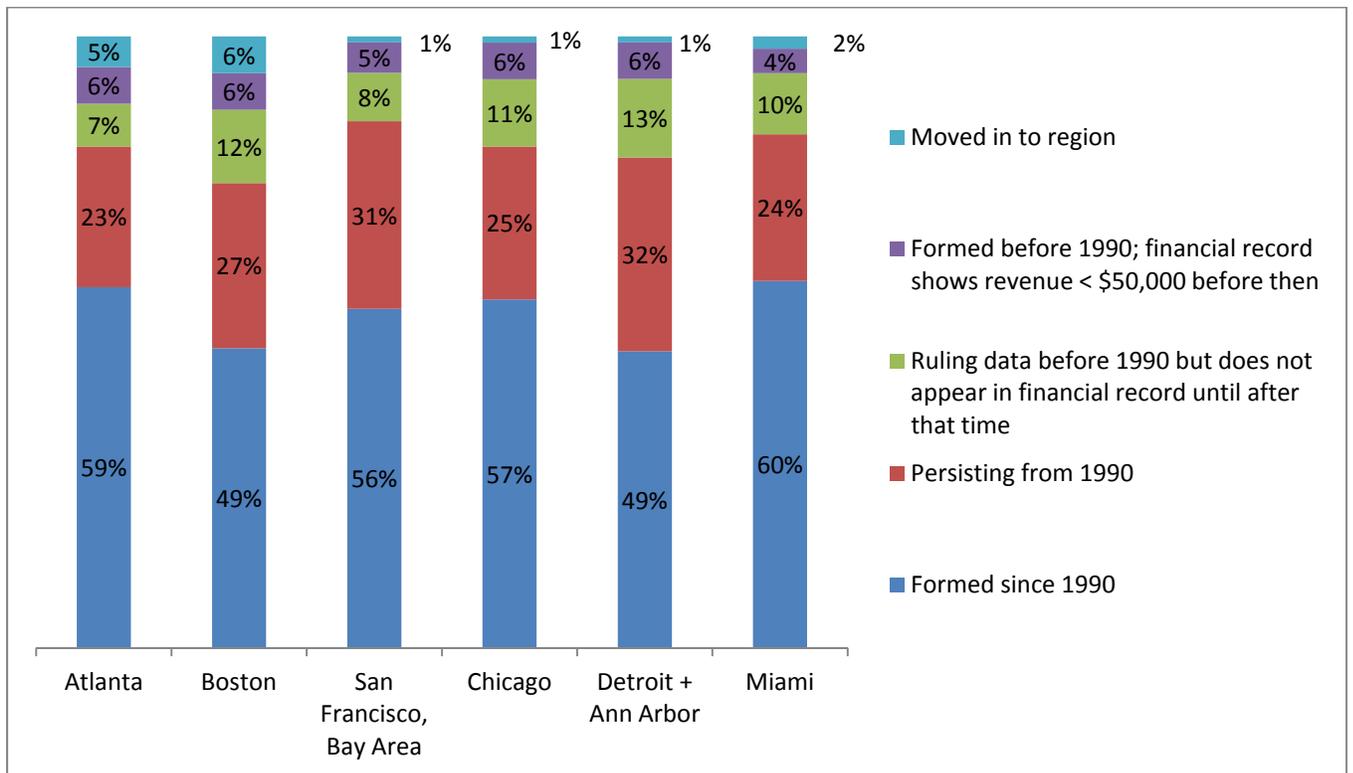
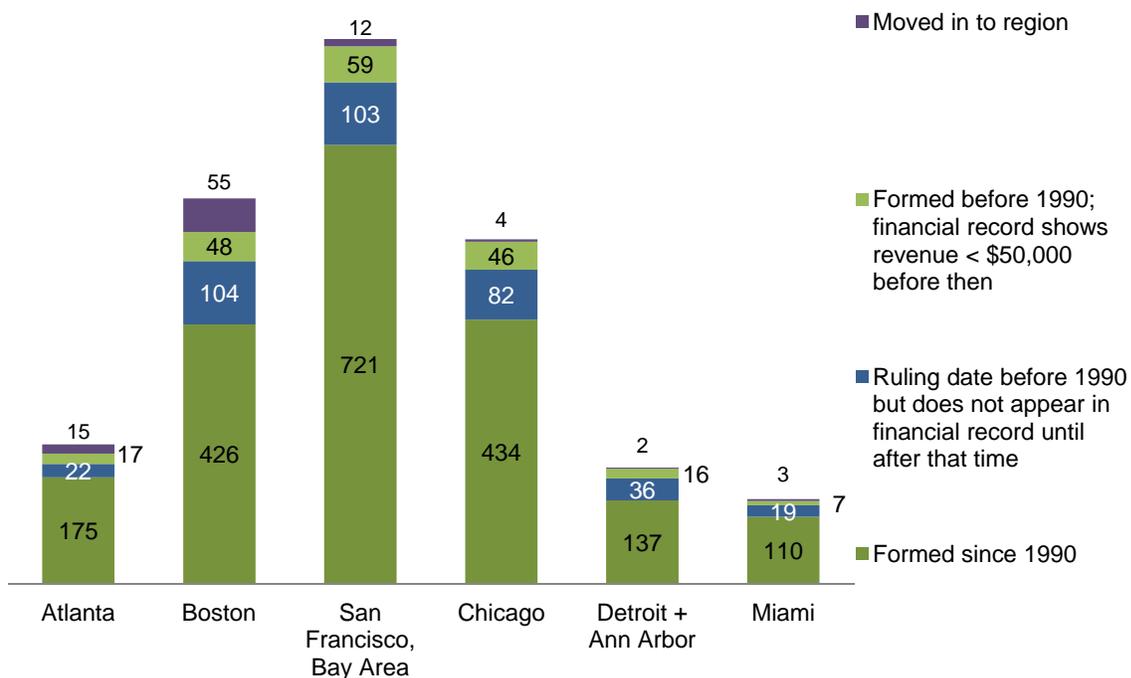


Figure 8: ACOs that filed an IRS Form 990 in 2010, showing new and newly-reporting organizations



Small numbers of existing ACOs relocated into each of the six metropolitan areas between 1990 and 2010. This trend was particularly noticeable in Atlanta and Boston (Figure 9).

In each metropolitan area, there were also many ACOs formed before 1990 that did not file with \$50,000 or more in revenue circa 1990 but did so by 2010 (Figure 10).<sup>6</sup>

Figure 9: Percentage of all newly reporting organizations since 1990 that relocated to the region, as of 2010

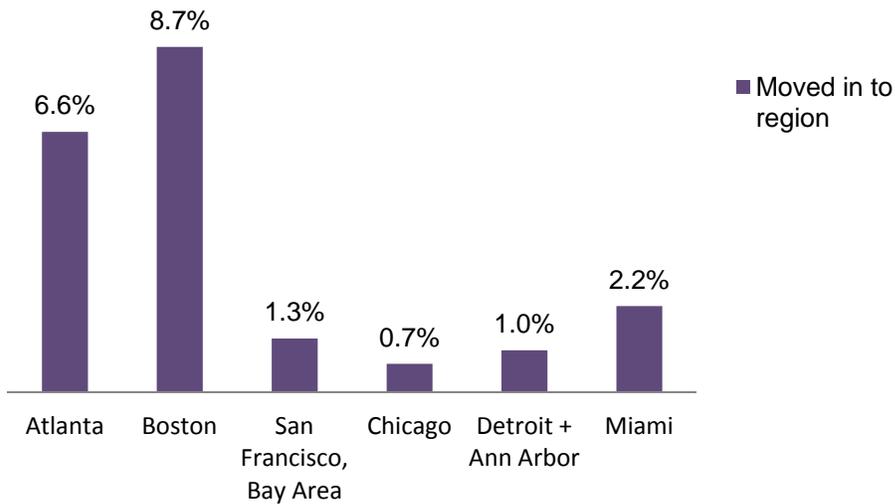
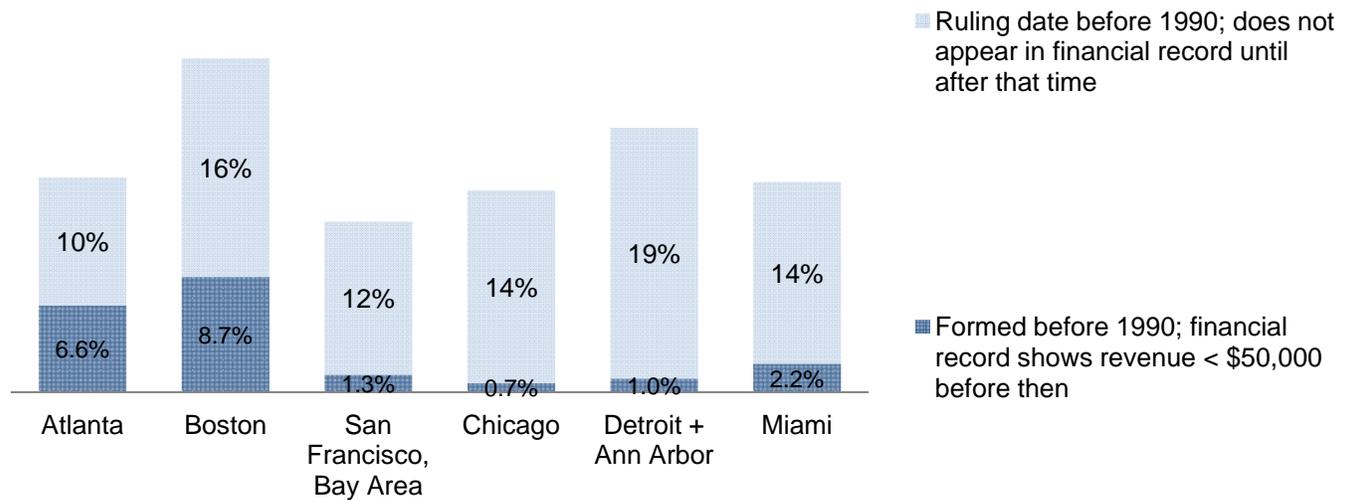


Figure 10: Percentage of all newly reporting organizations since 1990 that filed with revenue of \$50,000 or above in 2010 but had not done so circa 1990



<sup>6</sup> The base year calculation includes organizations that filed an IRS Form 990 with over \$50,000 in revenue. Setting the minimum for inclusion at \$50,000 for all base years (1990, 2000, and 2010) circumvents potential discrepancies in comparisons across periods, as the IRS changed the minimum threshold for filing a Form 990 from \$25,000 to \$50,000 for returns filed during the period covered by this study

## Factors Affecting Survival or Failure of Arts and Cultural Organizations

Many factors could be associated with the rates at which nonprofit arts and culture organizations (ACOs) survive or fail. Among them are:

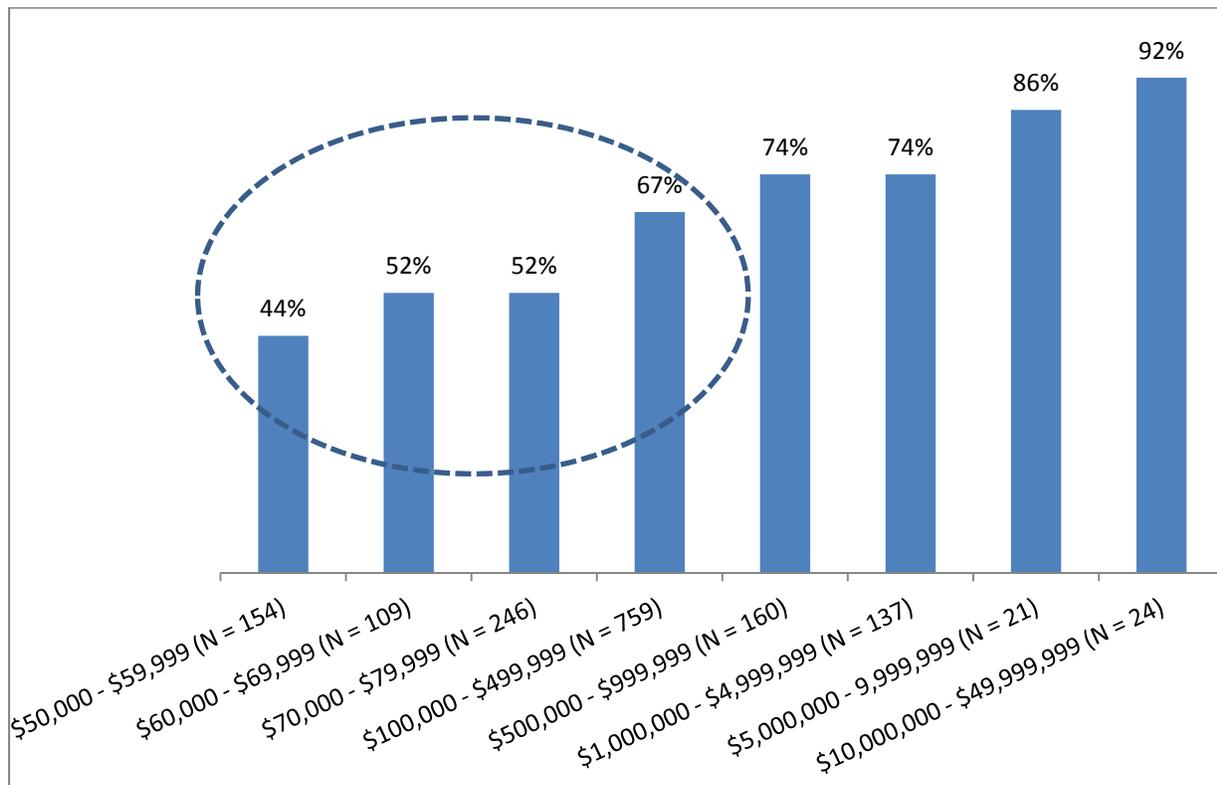
1. Revenues
2. Assets
3. Contributions as share of total revenue
4. Organization type
5. Location
6. Density of ACOs in a given region

In this section, we present the results of analyses that tested hypotheses related to the impact of each of these factors on the persistence and mortality of ACOs between 1990 and 2010. As there were only small differences by region, these statistics are presented for the overall dataset of the six metropolitan regions.

### Revenues (H1)

We hypothesized that revenue would be positively associated with persistence or survival. The statistical tests support this hypothesis. Figure 11 illustrates this finding using revenue ranges. The actual analysis used revenue levels, not ranges.

Figure 11: Percentage of ACOs that remained in file, 1990-2010, by total revenue range in 1990



Dashed oval indicates that organizations in this category were less likely to persist 1990-2010 than ACOs in general.

Tests show that organizations with higher total revenue are more likely to persist over time. The ranges developed for convenience and used in the figure suggest that the chances for sustainability improve when total revenue in a year is at least \$500,000 to \$999,999, but that level itself was not found in analysis to be a “tipping point.” Future research is advised to examine whether there is a threshold that needs to be met and whether that changes from year-to-year or across an organization’s lifecycle.

## Assets (H2)

The analysis supports the hypothesis that having a higher level of assets is associated with a greater probability of remaining a functioning ACO. Some organizations reported negative assets. However, over the three years studied, the distribution of reporting organizations by asset range was remarkably consistent. Future research will examine the composition of each budget range by geography and artistic discipline, in an effort to enrich localized capitalization strategies.

Figure 12: ACOs by asset range, by year

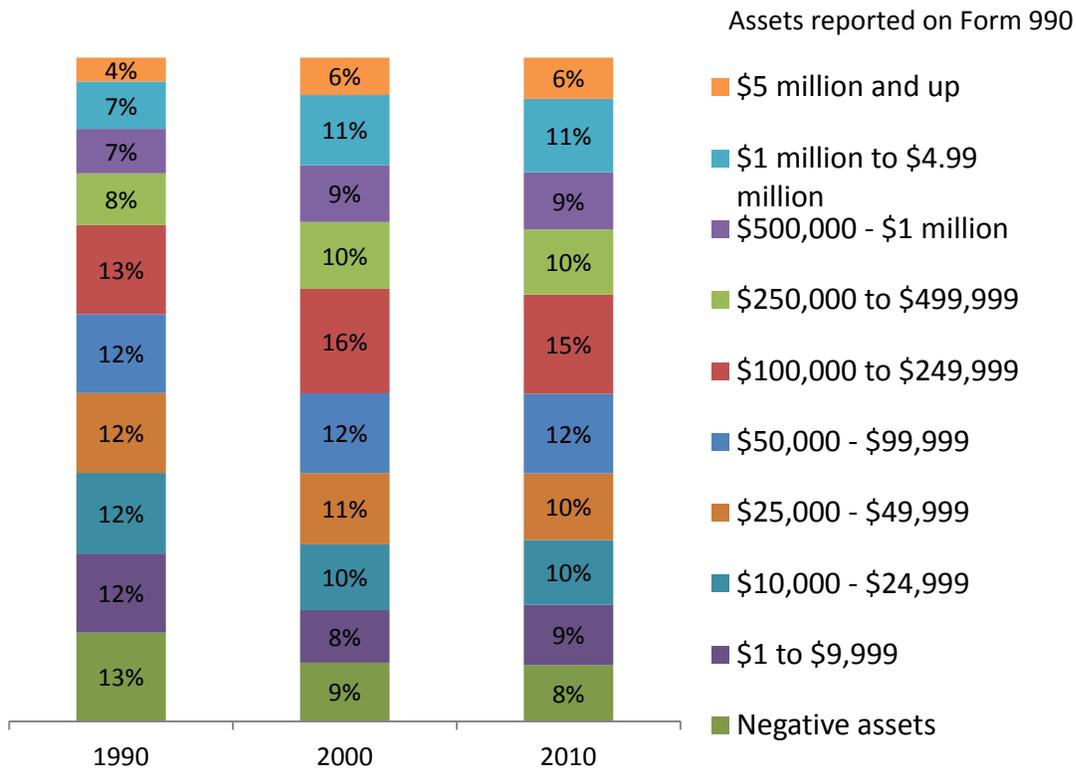
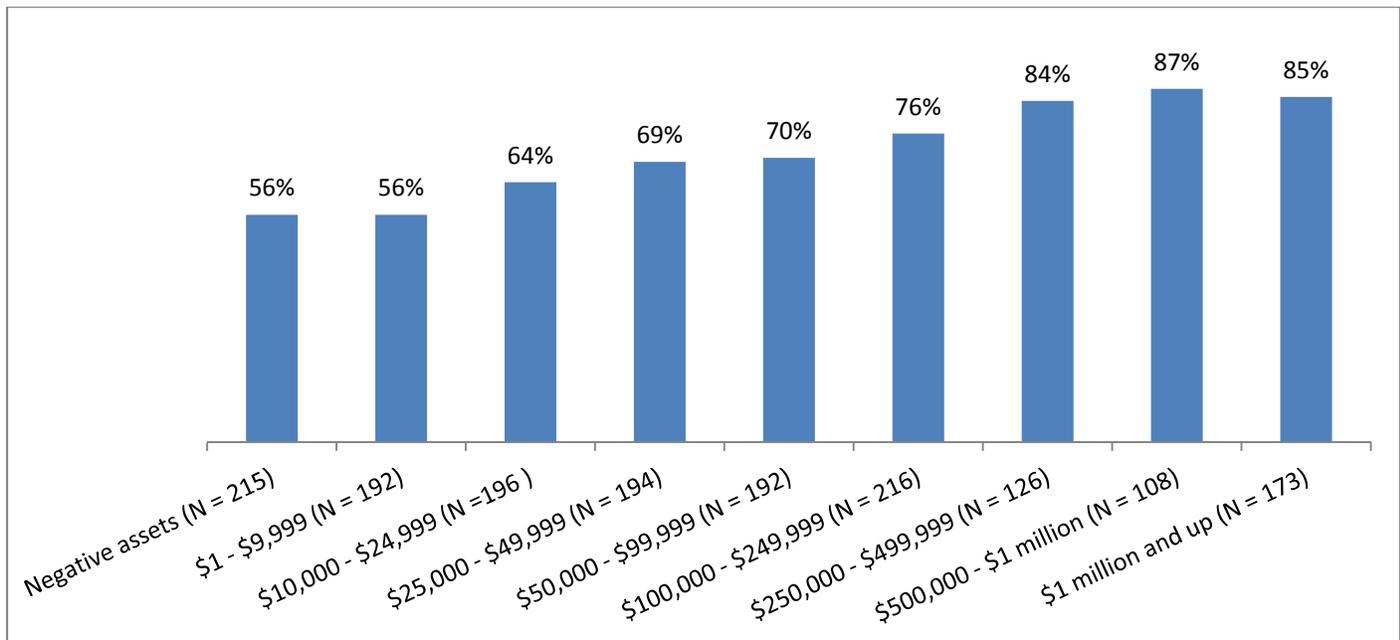


Figure 13: Percentage of ACOs that remained in file, 1990-2010, by range of total assets in 1990



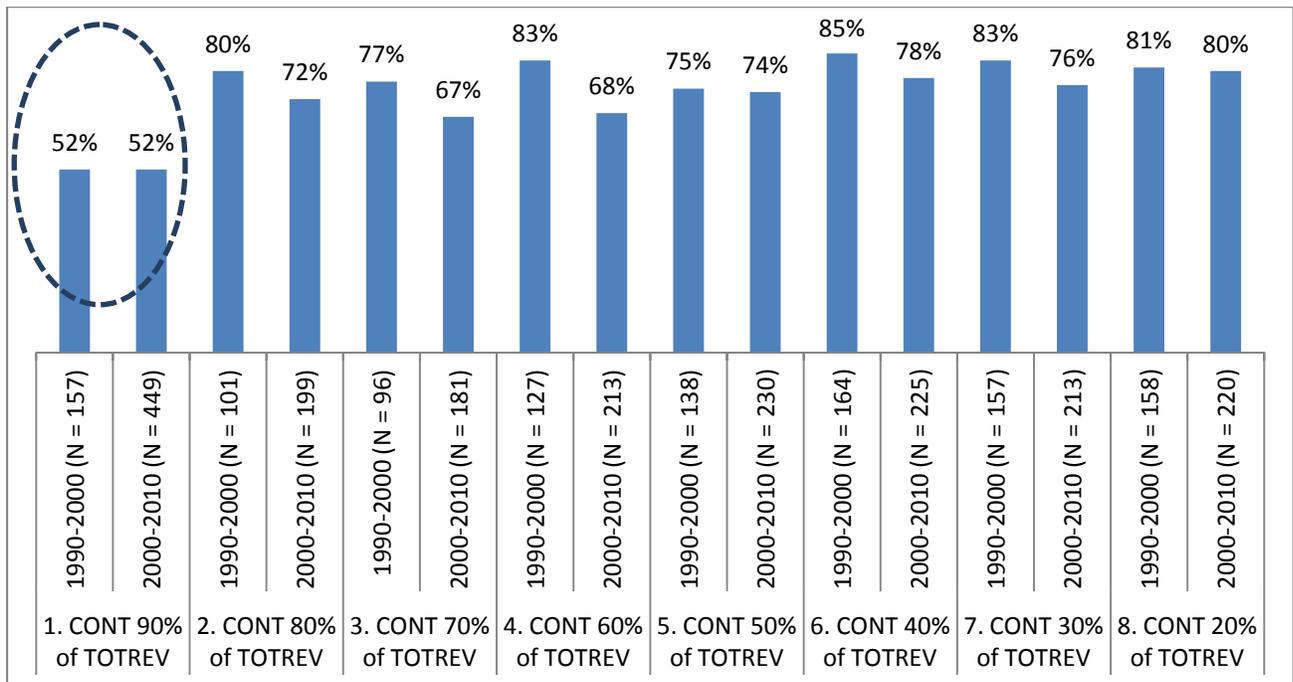
Note: The asset ranges used in this figure were defined for the sake of convenience to illustrate the point. There is no measurement of difference by RANGE, only by total assets.

Generally speaking, organizations with high assets were more likely to survive in each of the three periods, 1990-2000, 2000-2010 and 1990-2010. This relationship was among the strongest found and was consistent over time, in direction, and in strength as measured by the gamma statistic. Smaller asset ranges were associated with greater drops in survival rates from the 1990-2000 period to the 2000-2010 period, suggesting that economic conditions of the 1990s enabled less wealthy organizations to survive that did not fare as well under adverse conditions of the 2000s.

### Contributions as Share of Total Revenue (H3)

For each year in the core file records, analysts took reported contributions revenue and divided it by total revenue for each organization. By range, contributions could be 90 percent or more of total revenue, 80 to 89.9 percent, 70 to 79.9 percent and so on down to “less than 20 percent”, which is not shown below.

Figure 14: Percentage of ACOs that remained in file, 1990 filers as of 2000 and 2000 filers as of 2010, by percentage of total revenue from contributions in 1990 and 2000



Dashed oval indicates that organizations in this category were less likely to persist 1990-2010 than ACOs in general.

Organizations that were heavily dependent on contributions, at 90 percent or more of their revenue, were among the most likely to be lost to the record. Mortality rates among all other levels of contribution (less than 90% of total revenue) were generally similar, though ratios between 60% and 79.9% were associated with somewhat lower levels of survival from 2000 to 2010 than were other ratios below 90%.

### Organization Type (H4)

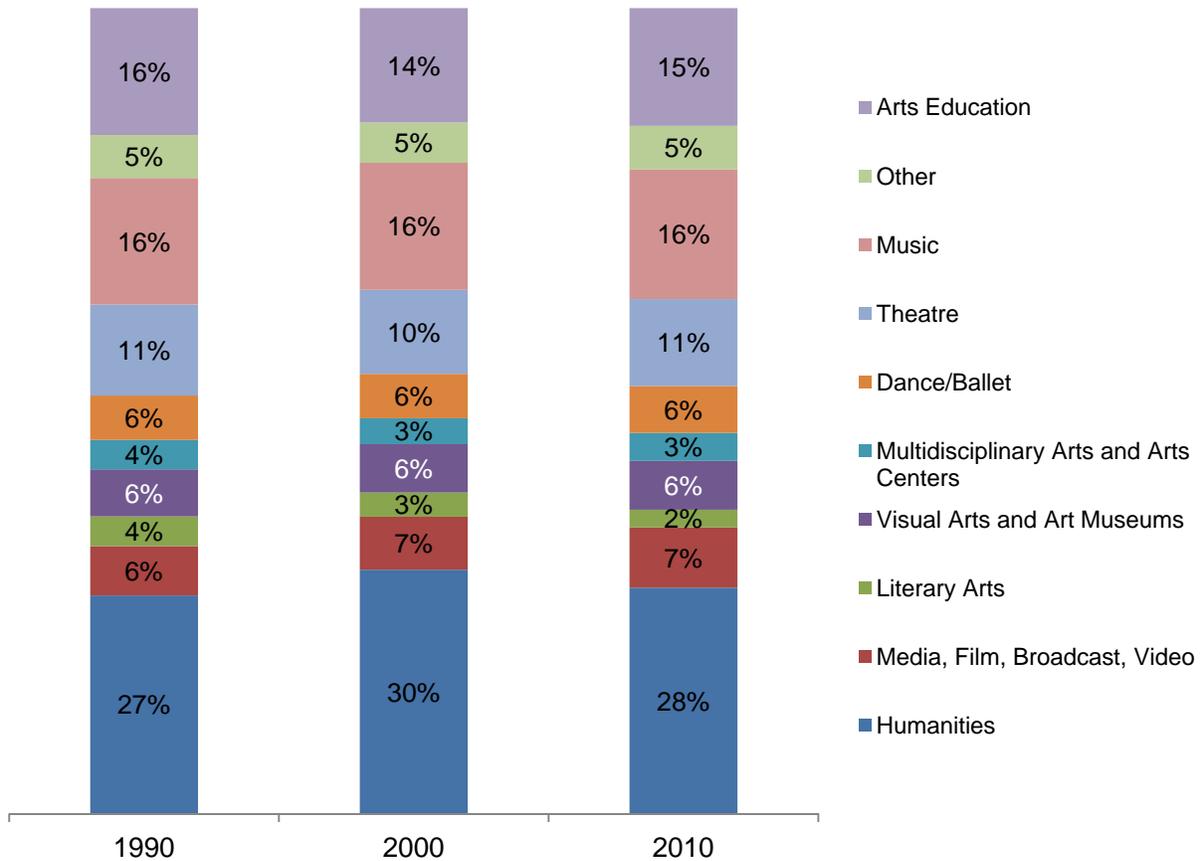
Using the taxonomy employed by the Initiative for Sustainable Arts in America, we analyzed the rate of change by organizational type. Humanities organizations outnumbered other types in each city and in each year. Over the three periods studied, there was very little change in the percentage of organizations by type except from 1990 to 2000. In 2000, the share of “other” was 7 percent, compared with 16 percent in 1990, whereas the share of humanities-type organizations rose in 2000 to 33 percent, up from 27 percent in 1990.<sup>7</sup> This mostly likely represents a shift in coding rather than a dramatic change in the ecosystem’s composition. This increase could reflect national initiatives launched during the 90’s such as *Save our Nation’s Treasures* or funding strategies that resulted in a blossoming of history and humanities focused programs and organizations.

The consistency of the results in Figures 12 and 15 is striking, but breakout results by region (not shown here) reveal that the percentage of ACOs by type and by budget remains relatively consistent within all six regions across all three time periods. Although these results will be

<sup>7</sup> “Other” refers to organizations typically formed to serve temporary, often supportive functions such as: fundraising for specific organizations, membership associations, etc.

further explored in subsequent research, this finding may suggest the role cultural identity (whether actual or aspirational) plays in shaping the overall composition and character of any given arts ecosystem. Future research could explore this phenomenon using strategies such as contingent valuation.

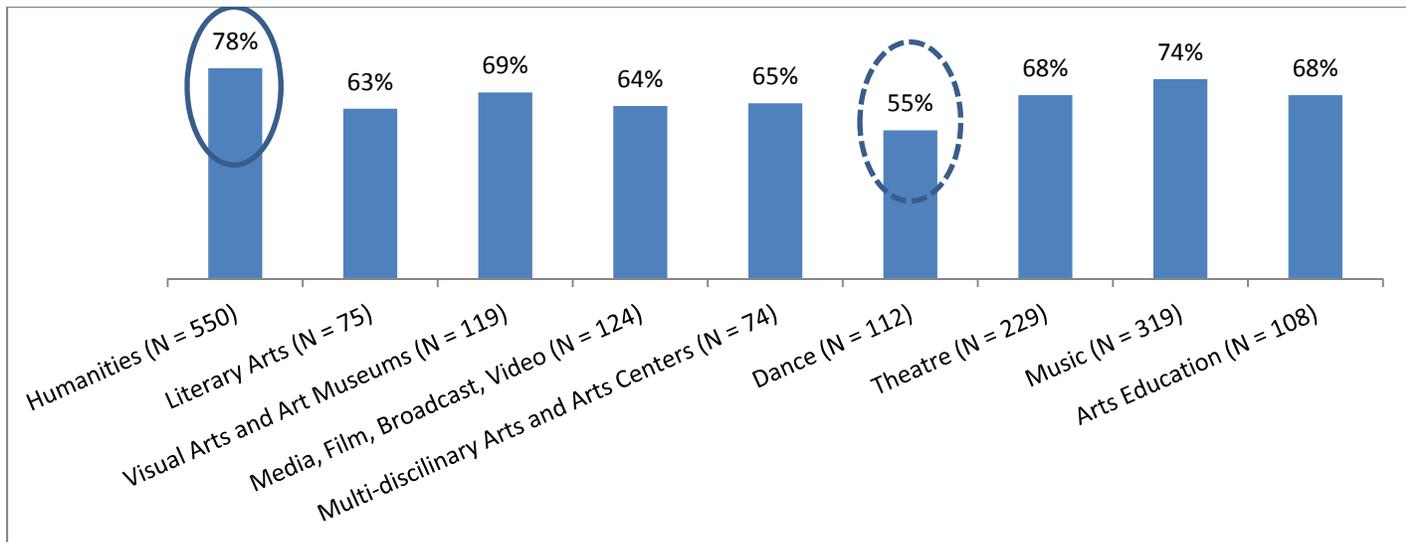
Figure 15: Types of ACOs by discipline, by year



Further analysis considered whether specific types of ACO were more or less likely to survive or die over the 1990-2010 time period. The results show that humanities organizations, which range from groups for preservation of cultural or ethnic heritage to historical societies and humanities councils, and music organizations were more likely to survive over this time period. Dance organizations were the most likely to fail, with a survival rate of only 55%.

Media, film, broadcast and video organizations saw a greater drop in their survival rates across the two decades than any other organization type, changing from 85% in the 1990s to 70% in the 2000s. Dance was the only type to show a lower survival rate from 1990-2000 (66%) than from 2000-2010 (75%).

Figure 16: Percentage of Organizations Filing IRS Form 990 1990-2010 by Type of Arts Organization

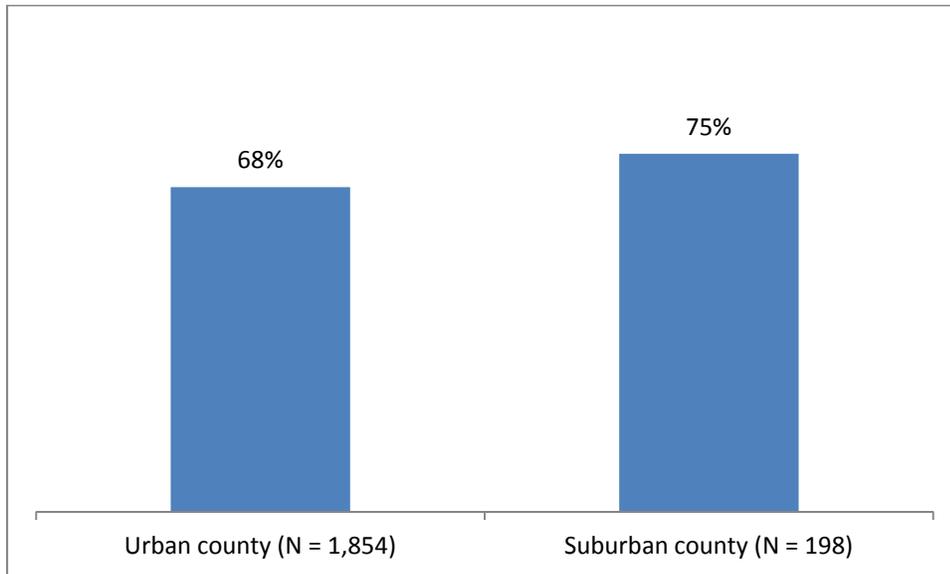


Solid oval indicates that organizations in this category were more likely to persist than ACOs in general.  
 Dashed oval indicates that organizations in this category were less likely to persist than ACOs in general.

### Location (Urban or Suburban) (H5)

Using codes from the U.S. Department of Agriculture to track whether a county is predominantly urban or suburban, this analysis finds that the hypothesis that urban organizations were more likely to survive is not supported. Urban ACOs ceased operating at a slightly higher rate than did suburban organizations in the same time period. Future Sustain Arts research will examine demographic, psychographic and cultural engagement trends more broadly to gain a deeper understanding of how these forces impact organizational longevity on an individual and collective scale.

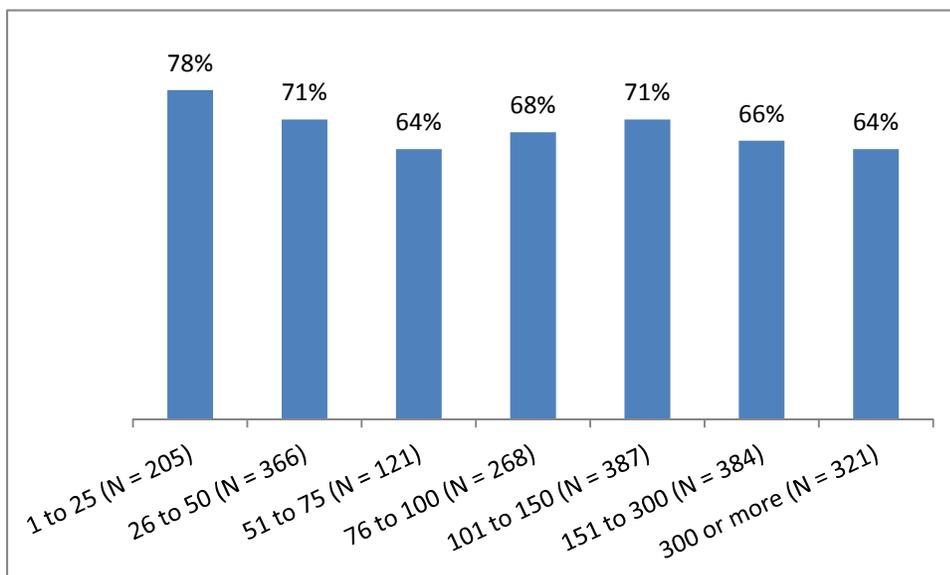
Figure 17: Percentage of ACOs that remained in file, 1990-2010, by urban or suburban county



#### Concentration or Density of ACOs within Region (H6)

For the period of 1990-2010, being located in a region with a small number of arts organizations (1 to 25) was associated with a higher likelihood of survival. In 2000-2010, an era with two recessions and two “slow recoveries,” ACOs located in counties with a medium-large number of arts organizations (between 151 and 300) were less likely to fail than arts organizations overall. By contrast, ACOs in counties with a very large number of arts organizations (over 300) were more likely to fail in the 2000-2010 era.

Figure 18: Percentage of ACOs that remained in file, 1990-2010, by total concentration of ACOs within each region in 1990



## Conclusion

This study of nonprofit arts and culture organizations (ACOs) revealed several general trends that were persistent across all six metropolitan areas selected for the study: Atlanta, Boston, Chicago, the San Francisco Bay Area, Detroit (with Ann Arbor included), and Miami. Of all the organizations that reported in 2010 across all six regions, roughly half were newly formed since 1990. Others were formed before that time but saw revenue increase to a level where reporting was required (\$50,000 or more by 2010). Even though new organizations formed significant parts of the landscape across the six regions, most of the older ACOs continued on throughout the twenty-year period: approximately 60 percent of the organizations that existed in 1990 were still reporting on IRS Form 990 by 2010.

Across all six regions, several distinct patterns emerged about the types of organizations that are most likely to survive for extended periods of time. Nonprofit ACOs formed and ceased to operate at relatively consistent rates between 1990 and 2000, 2000 and 2010, and 1990 and 2010. Over the twenty-year period examined, ACOs located in the San Francisco Bay area had the highest survival rate (66 percent). Slightly less than 60 percent of the ACOs located in Atlanta and Detroit regions remained in operation over the same twenty years. Furthermore, in each region, the total number of new organizations— including organizations that grew large enough to require filing IRS Form 990 – that emerged between 1990 and 2010 outstripped the number of organizations that stayed in business throughout this entire period. In fact, in 2010, for every ACO that existed in 1990 and survived until 2010, about 2.6 new organizations had been created since that time, on average across the six regions.

One of the key factors most strongly associated with survival was net assets. Organizations with greater stability as a result of having higher levels of assets (including property) were more likely to endure through the period examined. Another attribute positively associated with survival is overall revenue (as defined by total gross revenue). Organizations with higher amounts in revenue were more likely to persist over time. Lastly, organizations that received a moderate level of their funding from contributions were more likely to persist than were organizations with a heavy reliance on contributions (90% or more of gross revenue). Taken together these findings highlight the important role fiscal stability and financial independence play in enabling long-term organizational sustainability. Future research will examine the way different types of investments, for example risk capital or general operating grants, enable organizations to adapt with greater resiliency.

The rich variety of artistic disciplines found within each of the six nonprofit cultural ecosystems examined remained relatively consistent across each year analyzed, even with new entities being formed and others leaving each community. When analyzing the data by discipline type the one clear finding is that humanities organizations showed the highest rates of survival (and are the most numerous in each region). Meanwhile other types of organizations, including literary arts, dance, and multidisciplinary organizations, were generally less likely to persist over time. Furthermore, over the three years studied the distribution of reporting organizations by asset range was remarkably consistent as was the percentage of organizations by discipline type.

Contrary to expectations, organizations in urban areas were not more likely to survive than their suburban counterparts. This finding deserves further research, for example by applying a more finely grained coding system of what constitutes urban versus suburban than the county-level codes provided by the U.S. Department of Agriculture allow for. In addition, future research will

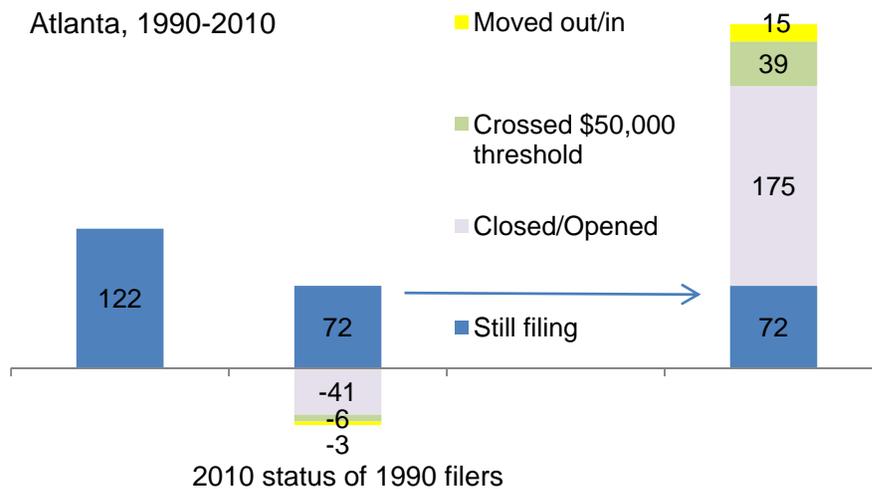
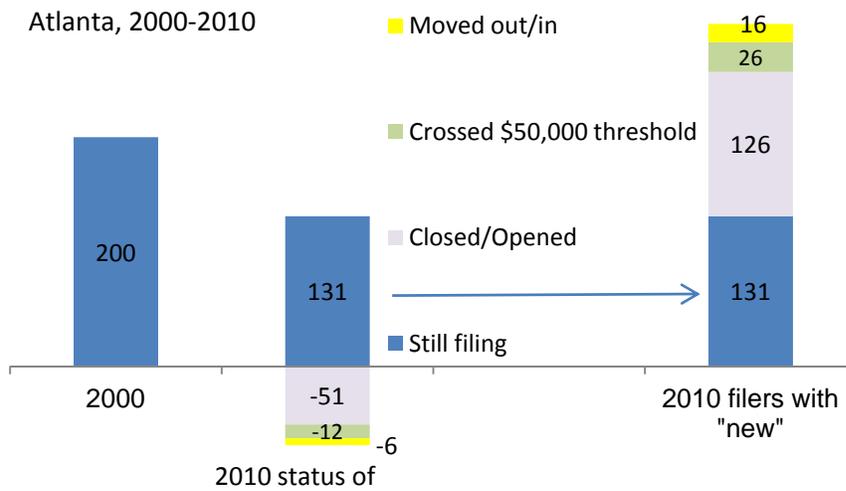
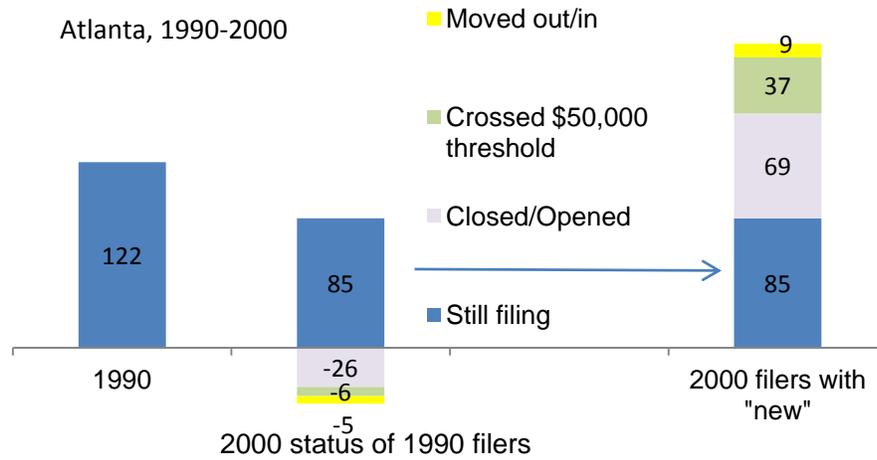
integrate demographic data for each geographic region to examine how different population segments engage with each culture ecosystem.

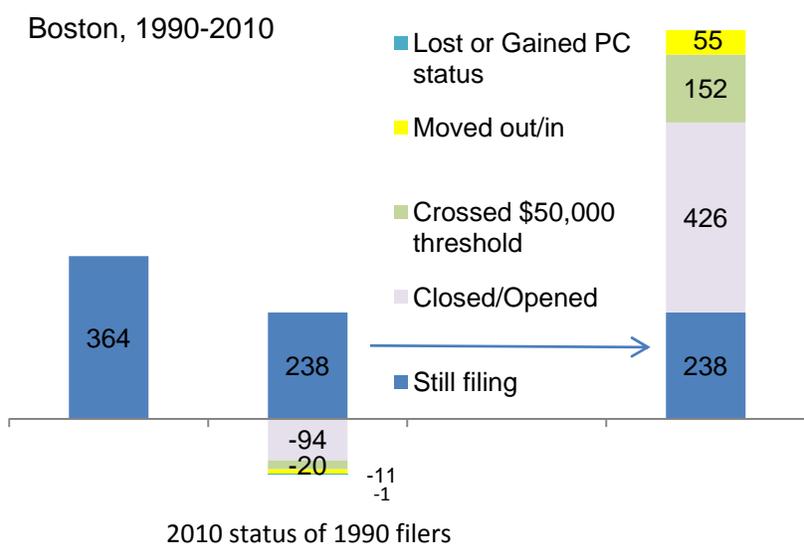
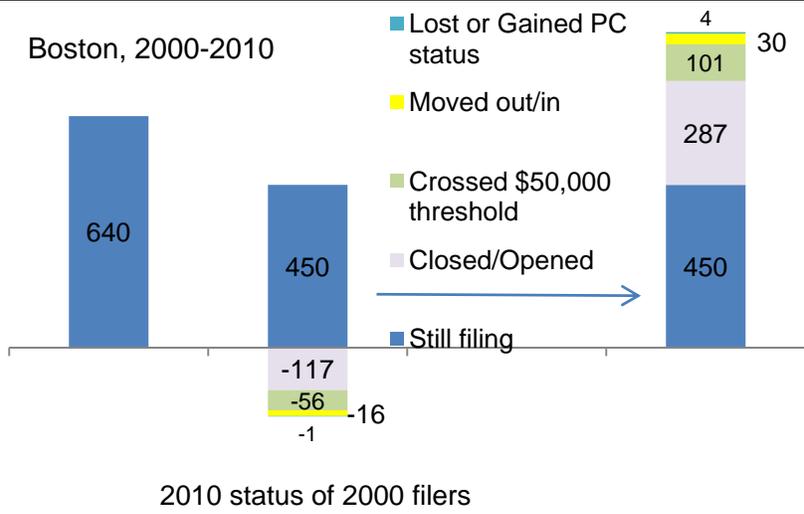
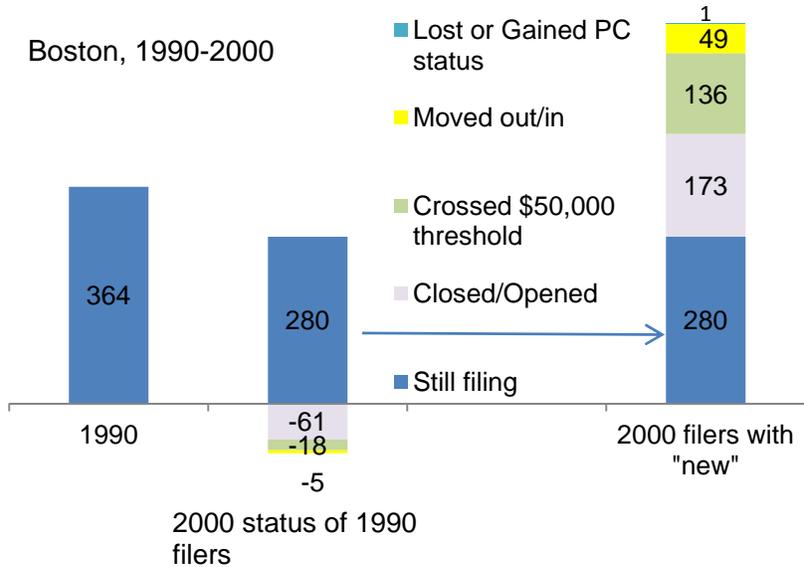
The total concentration of arts organizations in a region produced mixed results. There were no statistically significant differences for 1990-2000 and 1990-2010 for when a region had a comparatively small number of arts organizations. However, for the 2000-2010 period, two significant findings emerged. When a region had a medium-large number of ACOs (151 to 300) those entities were more likely to survive. Entities in regions with 300 or more ACOs were less likely to survive in the 2000-2010 era. This finding also warrants further research, as there might be larger economic trends at work in that period that did not affect arts organizations in the 1990-2000 period. Future research will examine specific nuances and attributes of the arts' operating environment in this particular decade to gain a deeper understanding of the logic behind this, for example looking at how economic trends at work in that period that did not affect nonprofit arts organizations in the 1990-2000 period.

The Sustain Arts research team will use these insights to design a subsequent set of research questions and will conduct exploratory interviews with key stakeholders in all six metropolitan areas. These interviews will be designed to help us develop additional hypotheses regarding the factors that influence ACO creation and mortality, and here we will begin to look at causation. Likely interviewees might include leaders of newly created ACOs, local cultural councils, or leaders of ACOs whose levels of support from either private or public sources have changed in significant ways within the past decade. Because we are interested in learning about the causes of ACO mortality, we would also attempt to contact (former) leaders or trustees of ACOs that appear to have terminated, based on available IRS data.

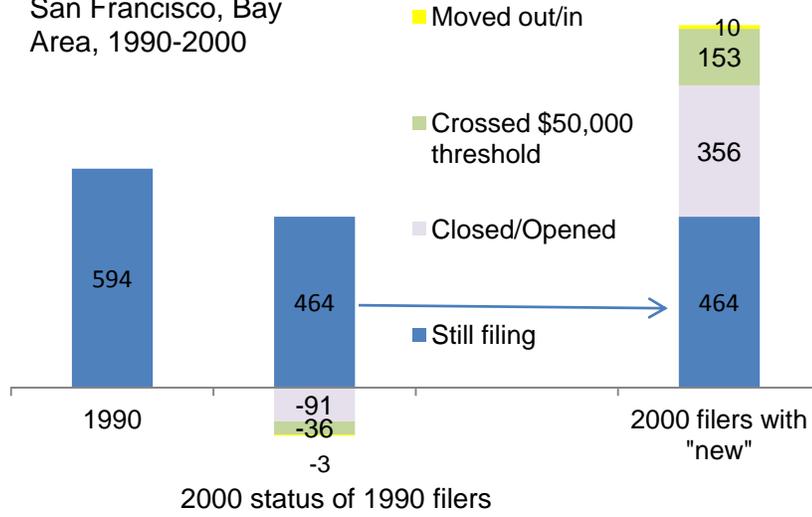
Analyzing birth and mortality rates of nonprofit arts and culture organizations establishes binary trends (to live or die) across time, diverse geographies, organizational size and discipline types. However to 'live' does not always equate to living well, nor does this classification shed sufficient light on the types of adaptive capacity organizations benefit from over time. This work does set the stage for a more comprehensive assessment of what constitutes a vibrant cultural organization and by extension ecosystem in today's operating landscape. If the arts and culture sector is to become more resilient over time then greater appreciation must be paid to the natural paradox of sustainability, that is to live you have to allow for death. Most natural systems progress through an ongoing cycle of change from emergence and new growth, to a stage of sustained character, decline and eventually new growth. The data examined in this study demonstrates the disproportionate role growth and maintenance have played in the nonprofit arts sector over the two decades. This work revealed multiple pathways for future research that can refine our understanding of how practitioners can best support the field's strategic evolution. Many of these themes will be incorporated by the *Initiative for Sustainable Arts in America* in the years to come.

## Appendix: Detailed information by MSA/Region

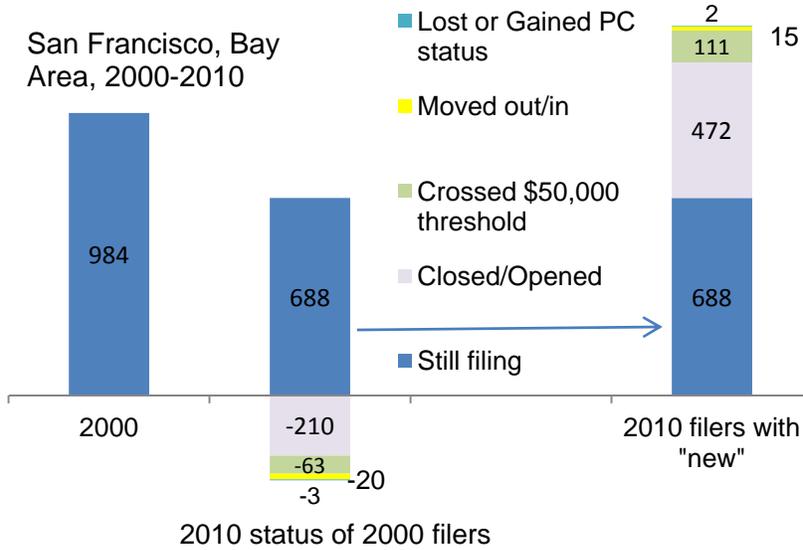




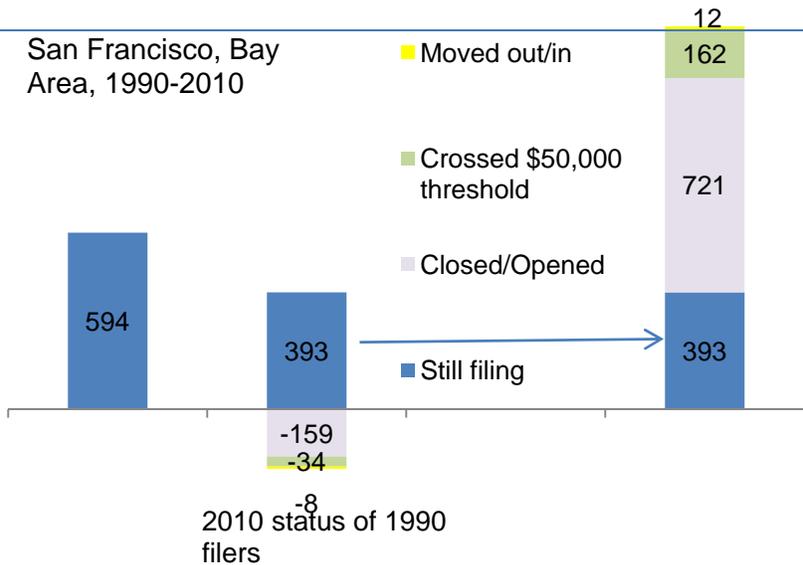
San Francisco, Bay Area, 1990-2000

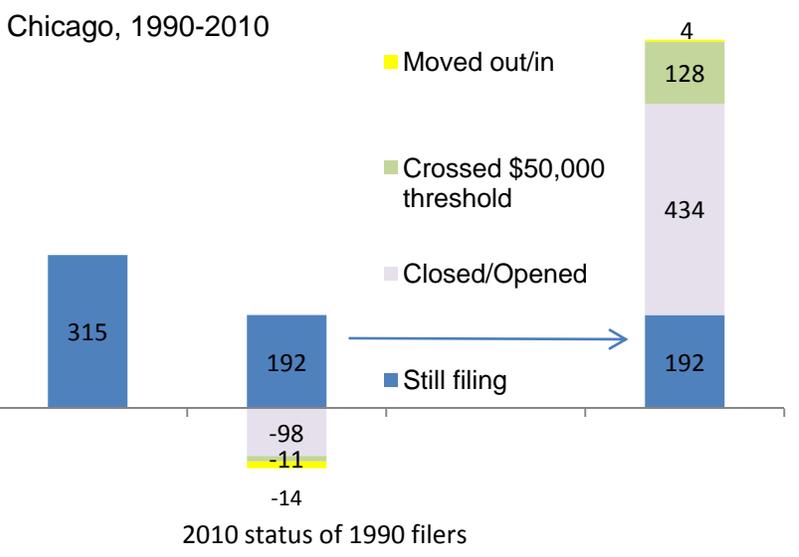
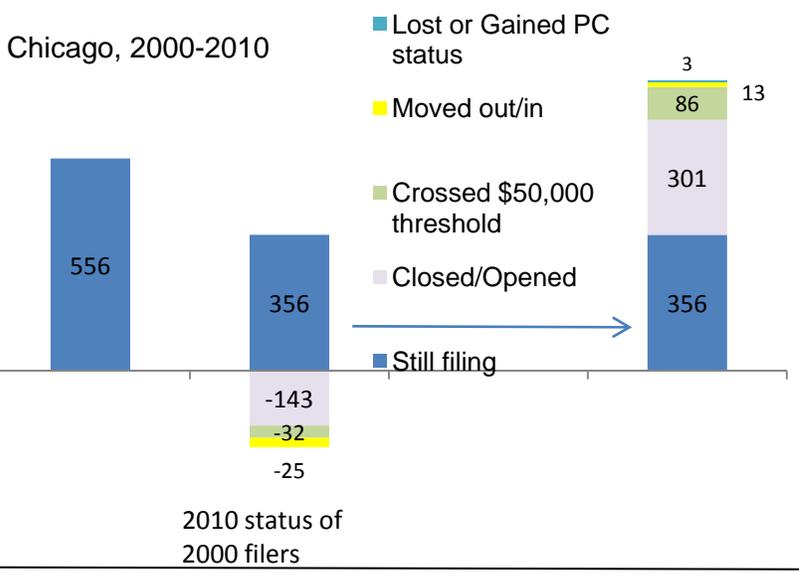
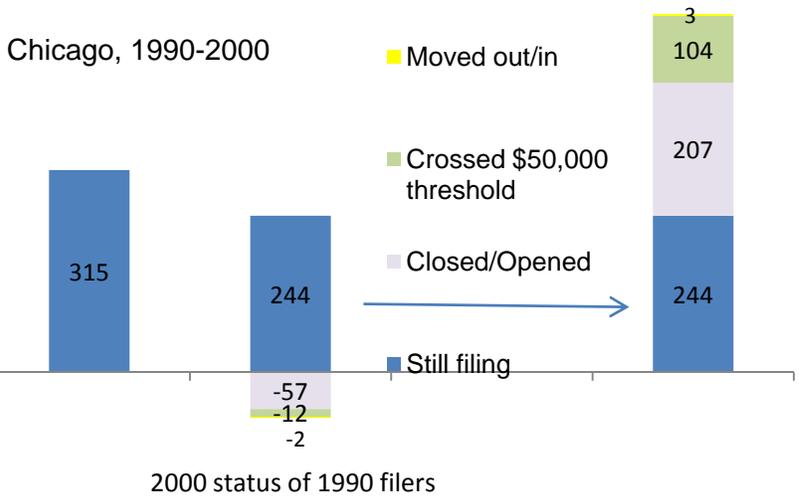


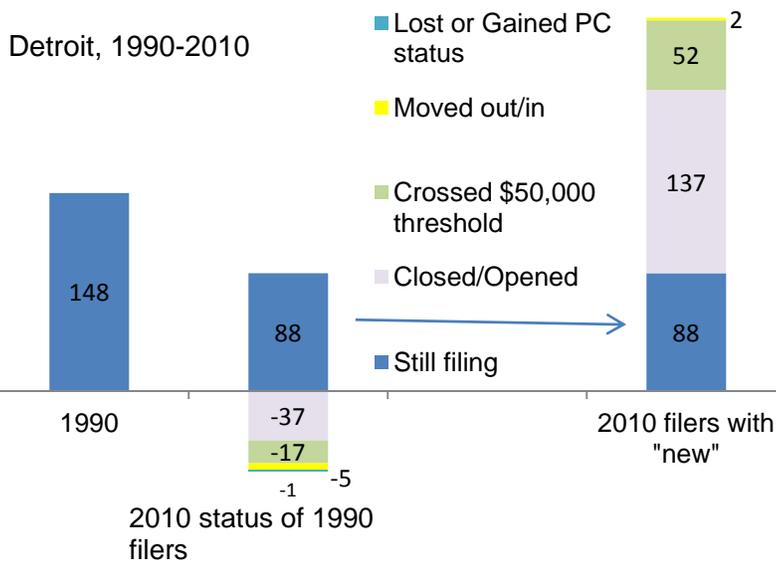
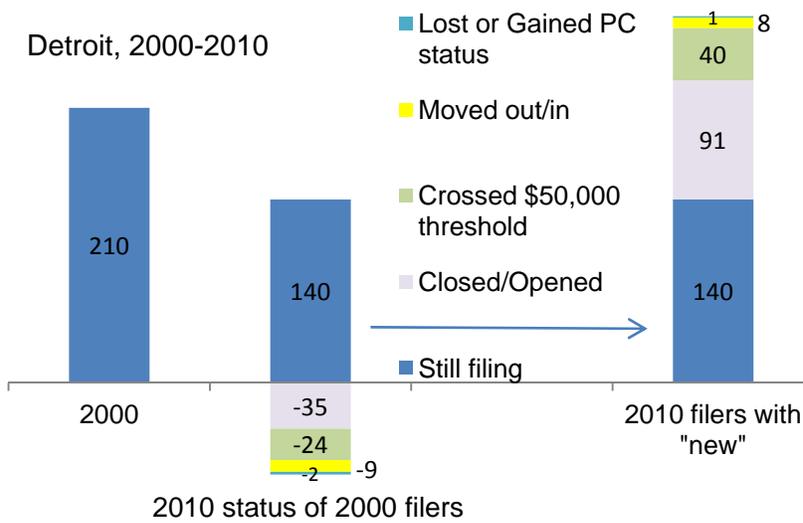
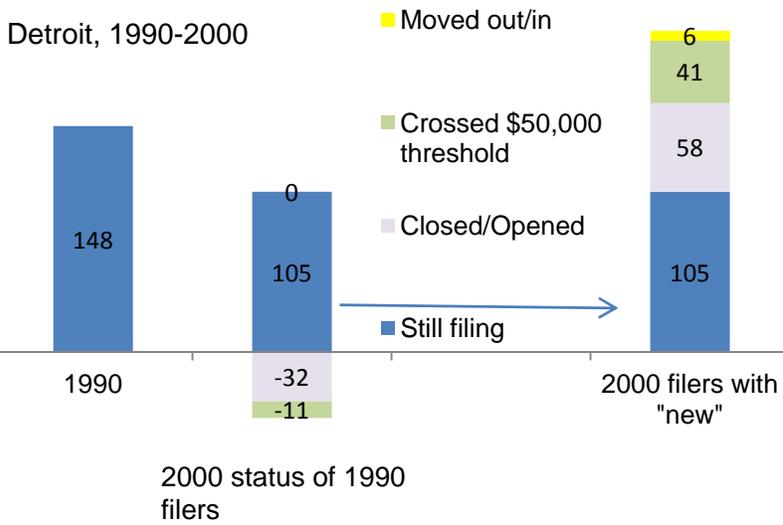
San Francisco, Bay Area, 2000-2010

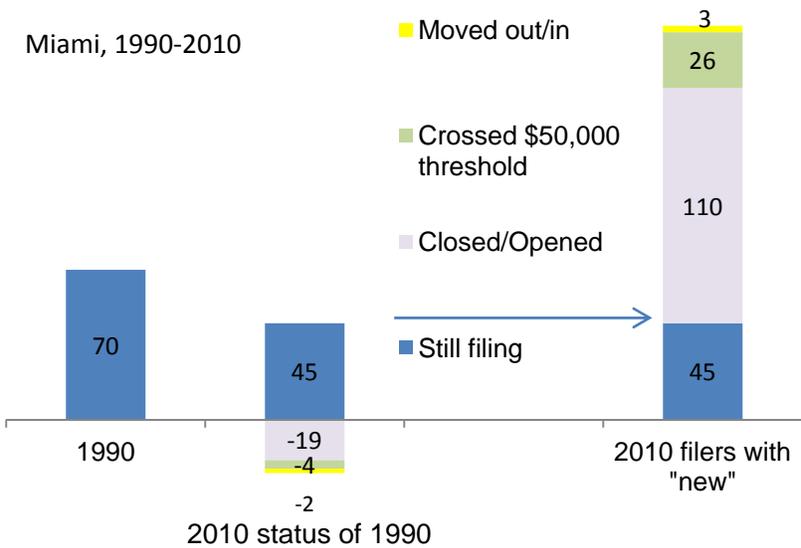
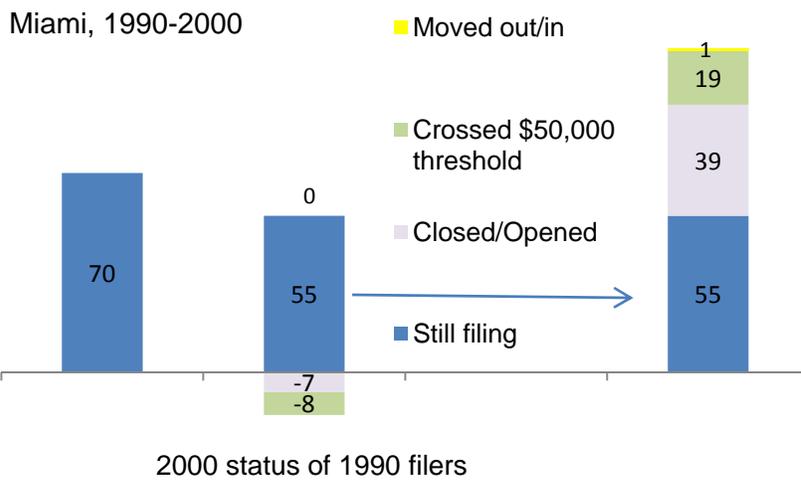
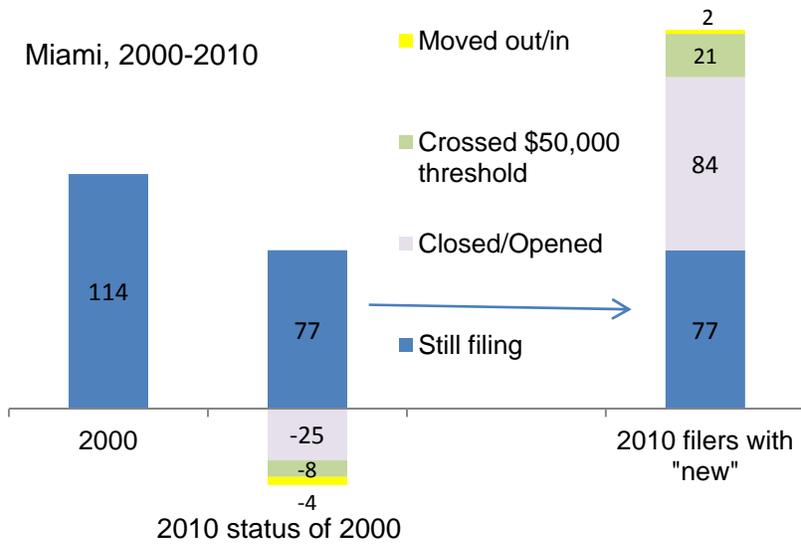


San Francisco, Bay Area, 1990-2010









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