

The Arts in Arizona

A discussion document

Commissioned by:

**The Flinn Foundation
The J.W. Kieckhefer Foundation
The Margaret T. Morris Foundation
The Virginia G. Piper Charitable Trust**

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This report was researched and written by Adrian Ellis, Joe Hill and Jeanne Bouhey of AEA Consulting. The report is based on extensive interviews with artists, arts managers and funders of the arts both in Arizona and out of state, for whose insights and courtesy we are extremely grateful. Interviewees are listed at the Appendix.



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1. Background and summary

- 1.1. In Spring 2002, four private foundations in Arizona – the Flinn Foundation, the J.W. Kieckhefer Foundation, the Margaret T. Morris Foundation and the Virginia G. Piper Charitable Trust – commissioned a review of whether they could and should develop a common framework for some or all of their funding activities in support of the arts in Arizona.
- 1.2. As part of that exercise, AEA Consulting was commissioned to identify the challenges facing Arizona’s cultural organizations over the next five or so years, so that recommendations on whether there is a responsible collective strategy by private foundations with a mandate to support the arts might be informed by a deeper understanding of the context in which arts organizations are operating.
- 1.3. The initial analysis, summarized below, is being circulated for discussion, in order to both refine the analysis itself and to assist arts organizations in developing their understanding of – and responses to – the trends identified.
- 1.4. The analysis involved no primary research beyond interviews with arts practitioners, funders and civic leaders. It suggests that non-profit arts organizations will face a number of very real challenges over the next five to ten years. Some of the challenges they face are broadly national in character and some more regional or local.
- 1.5. Challenges that are broadly national in character include the following:
 - ? Continued pressure, both internal and external, to expand both programming and physical capacity on an inadequately capitalized basis, compromising organizational effectiveness;
 - ? In particular, increasingly ‘contractualized’ relationships with funding agencies that are more reluctant to fund core organizational operating costs than distinct programs, thereby inadvertently encouraging under-funded programmatic expansion;
 - ? The impact of globalization, which is drawing an increasingly noticeable divide between ‘winners’ – internationally successful, high profile institutions enjoying a virtuous circle of critical and public acclaim and more easily secured contributed income – and ‘the rest’;

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- ? Changing leisure patterns and appetites that increasingly mean that the consumption of live nonprofit ‘high’ culture (as opposed to either live commercial entertainment or culture accessed technologically through media such as CDs or books) will continue to come under pressure;
 - ? Changes in demand for culture stimulated by demographic shifts and modifications in the education system (and in particular in the provision of arts education in the public school curriculum). Studies suggest that Americans in their 20’s have significantly lower rates of attendance at live performing arts events than their parents did at the same age.

1.6. Challenges that are broadly regional or local include:

- ? A rapidly growing population that is geographically extremely mobile (with larger gross figures of inflow and outflow underpinning the net growth data), making the development of long term affiliations by arts organizations problematic;
- ? A high level of ‘civic privatism’ – that is, a middle class with a relatively low level of civic engagement, manifested in low participation in voluntary activity, attenuated civic leadership and a low level of political tolerance of tax-based social expenditure. This is exacerbated – but not caused – by the ‘hollowing out’ of corporate leadership in Phoenix, which parallels that of many American cities where headquarters have moved elsewhere;
- ? A population of increasing ethnic diversity, with particularly fast growth in Latino communities, which generally have a low level of participation in traditional ‘high art’ forms;
- ? The lack of a strategic context for capital investment in the arts combined with civic agendas in many cities that encourage image-building investment in cultural facilities undertaken outside the context of a programming or long-term funding strategy, with attendant risks of over-investment in closely competing facilities, particularly in Maricopa county;
- ? An increasingly sharp urban-rural divide, making meaningful rural provision increasingly expensive per capita;

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- ? A political leadership that, outside the context of physical investment, is not generally engaged by the instrumental use of cultural assets in profile building or tourism strategies;
 - ? A relatively weak role for the arts in a decentralized and fragmented schools system that is addressing – and will continue for some time to address – more pressing issues than the place of the arts in the curriculum.
- 1.7. No one trend identified is likely to be news either to the foundations that have commissioned this study or to the arts organizations active in Arizona. What may be new is an opportunity for reflection on their cumulative impact on arts organizations. (*The economy's current condition at or near the bottom, one hopes, of the current business cycle has been excluded from these trends.*)
 - 1.8. At the very least Arizona's arts organizations, to be sustainable, need to include specific sub-strategies for either overcoming these trends or, more likely given their nature, adapting to them. In many cases, the relevant questions can be answered, but are currently not being asked; in some others they are being asked, but the answers are simply not known. Some of the territory ahead, we conclude, is necessarily uncharted.
 - 1.9. Arts organizations have some awareness – indeed, a growing one – of the scale and character of the challenges they face, although the current difficult economic climate tends to obscure them. Moreover, the systemic optimism required to run a nonprofit organization and the necessary preoccupation with day-to-day management can lead the senior management of these organizations to underestimate the challenges, to be reluctant to consider how best to prepare for them, or to fail to distinguish between their effects (such as lack of funding) and the longer term causes themselves.
 - 1.10. Section Two describes the wider context; Section Three, the regional and local context; and Section Four looks at possible strategic responses to the challenges.

2. The wider context

Pressures towards under-funded growth

- 2.1. Arts organizations are inherently loss-making enterprises. There are many kinds of goods and services for which the market does not generate enough demand at a sufficiently high price to stimulate supply, given the marginal cost of producing those goods or services. Left to the market, the costs of supply are either too high or the level of effective demand is too low for these activities to be priced in a way that is accessible to more than a very select band of consumers, if at all. Some mix of fiscal privileges and philanthropic support are required either for demand to be boosted or, more commonly, for supply to be stimulated to a level where the supply and demand curves cross. Almost all forms of cultural provision meet this abstract description.
- 2.2. Income generated by core, mission-related programming – admission fees, ticket sales etc. – can and does offset costs, *but minimizing losses is not the same as maximizing surpluses*. Even with the most ingenious and entrepreneurial approaches to revenue maximization, earned income is significantly and systemically less than expenditure for most organizations concerned with traditional forms of non-profit “product,” even without factoring in the adverse impact on the bottom line of any social agenda an organization may have for encouraging wider access to its activities.
- 2.3. Most arts organizations therefore increasingly scan the horizon for opportunities to increase income through business streams that are not directly mission-related. For example, they seek licensing agreements, commercially exploit the cultural and social cachet they may enjoy, or acquire and subsequently sell or rent real estate or other property that is in excess of operational needs. But the exploitation of these opportunities, where they exist, requires specialized management skills, access to venture capital, and an ability to act in an entrepreneurial way that often sits uncomfortably with the structures, resources, and skills base of nonprofit arts organizations. Strategic alliances with appropriate for-profit organizations or the establishment of for-profit subsidiaries can make it easier to exploit commercial opportunities. The opportunities themselves need to be there, however.

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- 2.4. This thumbnail sketch of the economics of nonprofits is well understood by consumers, producers, and funders alike. However, some of its ramifications are less well understood while at the same time increasingly relevant to the current challenges facing arts organizations. Perhaps the most important among these is the impact of a decade of growth on their capital bases.
 - 2.5. The main implication of the inherent economic dilemma of nonprofits is an inescapable tension in the short term between pursuit of mission and the programs that support an organization's mission on the one hand and maintaining financial viability on the other. All dynamic, mission-driven nonprofits live in the force field created by the tension between money – or lack thereof – and mission. The force field grows more powerful the greater the urge to expand programming. Given that there is usually a large gap between an organization's mission and the part of the mission realized through its current programs, the urge to grow is usually very powerful.
 - 2.6. However, growth usually cannot be funded by retained surpluses—simply because generally they are not there. Growth therefore needs to be funded externally. But debt-funded growth requires repayment of both interest and eventually principal and therefore assumes either that the investment will generate a positive rate of return or, more usually, that it will attract philanthropic funding to meet these repayment costs. Equity investment *per se* is not an option for nonprofits, although they may have opportunities either to create for-profit subsidiaries or strategic alliances with for-profit organizations that provide vehicles for investors. Furthermore, equity investment, like debt, is premised on a positive rate of return on capital employed.
 - 2.7. The primary source of funding for growth – and indeed the recapitalization periodically required for even static organizations – is therefore either contributed income or income from reserves and endowments that have themselves been created through contributed income. However, unless nonprofit organizations can articulate—and funders embrace—the idea that growth requires investment and that the *full* rather than *marginal* costs of growth need to be covered by these sources of contributed income, the impact of growth is generally to stretch organizational and financial capacity more and more thinly. This leads to systemic under-funding of such areas as facilities maintenance, funded depreciation, working capital, staff development, competitive salaries, or training, all of which are required to support programs.

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- 2.8. Unfortunately, it is easier for arts organizations to raise money for the variable costs of programs than it is their full costs, and it is easier to raise money for programs than capital projects; it is easier to raise funds for capital projects than it is for core operating expenses, and it is easier to raise money for core operating costs than it is for such items as routine maintenance or training—but programs need bathrooms, and bathrooms need cleaners.
- 2.9. The cultural sector has tended to try to ignore this logic for a number of reasons. One is that, as a whole, the nonprofit sector relies heavily on the skills, energies, and enthusiasms of its executive and non-executive leadership. This leadership is often formidable, so formidable that it generates a belief that sheer energy, willpower, stamina, and enthusiasm can overcome all obstacles, and when it does not, that failure is rooted in some sort of personal shortcoming in leadership. The idea that an inappropriate capital structure can somehow subvert an organization’s ability to meet its objectives can seem overly deterministic, fatalistic even.
- 2.10. Another reason is that, as a whole, the sector has tended to focus on organizational capacity building rather than financial capacity building. The sector needs both. No amount of attention to, say, strategic marketing is going to make things come out right if an organization is so fundamentally short of working capital that it cannot meet next week’s payroll. Indeed, inadequate working capital is probably more corrosive to organizational effectiveness in the nonprofit sector than any other single factor. It means that the short term crowds out the longer term and that cash flow considerations dominate planning, with creditor management absorbing the time, money, and emotional reserves that are needed for longer-term planning.
- 2.11. It takes determined and informed leadership—with a long-term view of the organization, with a good knowledge of an organization’s cost base, and with a commitment to institutional stability—to ensure that growth in programs does not, over time, sap the organization. Without the knowledge of the organization’s cost base, the will to act on that knowledge, and a sophisticated or receptive funding community, a nonprofit organization will inevitably “hollow out” as its programming grows, the balance sheet will weaken, and short-term cash-flow issues will come to dominate long-term vision. *Rarely does “spontaneous” unplanned growth have a positive impact on an organization’s capital structure. Planned growth in programming requires planned growth in financial resources.*

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- 2.12. It is important to mention in this context the continuing cost-push inflation that many arts organizations experience owing to their limited ability to substitute capital for labor in the field of artistic endeavor (termed ‘Baumol’s Disease’ after the economist, William J. Baumol, who identified and quantified the phenomenon in the 1960s). The substitution of capital for labor is, of course, the principal cause of productivity gains, and any sector unable to secure these will, over time, grow inexorably more expensive relative to those parts of the economy where such technologically driven efficiency gains are possible. Baumol’s most cited illustration is the Mozart symphony that requires the same number of musicians that it did in 1791, the year of Mozart’s death. By contrast, fields such as manufacturing, transportation and agriculture have increased in productivity many times since 1791. A few economists have taken issue with aspects of the Baumol thesis, showing that there are scopes for productivity gains in the administrative areas of the arts, at least – but the general hypothesis is a powerful one, as is the evidence accumulated to support it.¹

The role of funders in encouraging under-funded expansion

- 2.13. Most funding bodies, both public and private, have developed criteria for appropriate *forms* of support. If the rationales are related to foundations’ own strategic priorities, the forms of support are usually related to their interpretation of their general responsibilities to the sector. Private foundations are generally reluctant to see themselves positioned as responsible for the general welfare of even a small sector of cultural life. The majority of foundations regard program support as a higher priority than capital projects, capital projects a higher priority than general operating support, and operating support a higher priority than assistance with organizational capitalization. The result is an inverse relationship between the ease with which funds can be secured from foundations by arts organizations and their value in enhancing organizational stability.

¹ See William Baumol and William Bowen, *Performing Arts: The Economic Dilemma*, New York, Twentieth Century Fund, 1966.

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- 2.14. One result of this situation has been that the growth of the nonprofit arts sector has not generally been matched by a commensurate increase in its financial and organizational strength. This means that small changes in either contributed income or earned income – for example in the immediate aftermath of the terrorist attacks of September 11, 2001 – can have a disproportionate impact on organizational stability. Even a cursory look at recent national coverage of symphony orchestras (for example through surfing the relevant archives of a site like www.artsjournal.com) shows how easy it is to identify those with weak balance sheets by the rapidity with which they entered crisis mode in 2001 – 2002.
- 2.15. Stabilization programs have gone some way to address these issues, and Arizona’s commitment to stabilization and to dissemination of the managerial perspective informing it has had a considerable impact. But the inherent dilemma remains. Funding strategies that eschew both core operating costs and measures that strengthen the balance sheet tend to encourage under-funded growth and, in the process, have been instrumental in creating a larger but financially vulnerable and programmatically circumscribed sector.
- 2.16. It is worth noting here that the increasing difficulty that arts organizations have in securing ‘core’ funding has been exacerbated by the phenomenon of the contractualization of the relationship between funding agencies and arts organizations, whereby those contracts tend to emphasize the aspects of performance that are most readily quantifiable and that support directly their stated funding strategies, whether those strategies are government policies or foundation missions and programs.
- 2.17. These funding arrangements have, in turn, had the effect of *de-emphasizing* those aspects of cultural organizations’ activities that are more qualitative in nature or that are less obviously supportive of funders’ political or institutional agendas – often in areas of activity that are central to the mission of arts organizations themselves (such as the conservation or stewardship of museum collections), again meaning that growth in budgets is often compatible with under-funding of core functions.

Globalization

- 2.18. A second, unrelated but high-impact trend affecting arts organizations in the past decade has been that of globalization. Globalization comprises the lowering of international barriers to travel, trade, and employment and to the flow of information, ideas, fashions, and values, together with the acceleration of these flows by technology-driven reductions in the cost of such traffic. Specific measures of the pace of globalization vary according to whether one is measuring the diffusion of ideas, capital, goods, or services. However, the general phenomenon and its exponential acceleration are an unmistakable trait that is manifested in almost all facets of contemporary life.
- 2.19. As the pace of globalization accelerates, the social and economic value attached to things that are either unique or that excel on a global scale of measurement inevitably increases; in turn, institutions wishing to or, more likely, needing to be distinctive in a global context are forced to reflect on the sources of their own competitive advantage. Those organizations that do not have either distinctive assets or the capacity to develop distinctive sources of competitive advantage languish, as human and financial resources and public attention refocus on those that do have the assets and the capacities to exploit them.
- 2.20. As a result, there is an increasing polarization within the cultural sector itself, as in other sectors, between those institutions that have the assets with which to compete aggressively and those that do not. Institutions with particular strengths—whether in their collections or performance, programming, location, the distinctive characteristics of their performance style, the imagination applied to their display, or in the iconic distinctiveness of their architecture—have been the beneficiaries of “customer loyalty” in its many manifestations. The impact of globalization has been, and will continue to be, a polarization between the “haves” and the “have nots.”

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- 2.21. Those that do not enjoy or have been unable to develop competitive advantages are in the process of falling noisily and painfully by the wayside. A recent review of the performing arts commissioned from the RAND Corporation produced convincing evidence of the hard times ahead for mid-size performing organizations in the United States that have neither the cachet of the largest cultural institutions nor the manoeuvrability and niche constituencies of smaller organizations.²
- 2.22. The RAND report synthesizes available data on theater, opera, dance, and music in both their live and recorded forms. Although most of the existing data are about the nonprofit performing arts – and those data have serious limitations – the study also analyzes the commercial performing arts, such as the recording industry and Broadway theater, as well as the volunteer sector, by which the authors mean arts activities that are carried out primarily by amateur and small, community-oriented nonprofit groups. The research focuses on signs of change in arts audiences, artists, arts organizations, and financing over the past 20 years – both in the aggregate and, where the data allow, by discipline and sector.
- 2.23. The authors conclude that the structure of the performing arts system is undergoing a fundamental shift. While the commercially recorded and broadcast performing arts industry is growing more and more concentrated globally, live performances are proliferating at the local level, typically in very small organizations with low operating budgets and a mix of paid and unpaid performers and staff. At the same time, a few very large nonprofit and commercial organizations are growing larger and staging ever more elaborate productions.
- 2.24. Mid-sized nonprofit organizations, on the other hand, are facing the greatest difficulty in attracting enough revenues to cover their costs. Many of these groups are, the RAND report suggests, likely to disappear. If the trends of the past 20 years continue, the authors envision a fundamental shift in the performing arts system. Instead of a sharp demarcation between a nonprofit sector producing the live high arts and a for-profit sector producing mass entertainment, major divisions in the future will be along the lines of big versus small arts organizations, or firms that cater to broad versus niche markets.

² McCarthy, K, Brooks, A, Julia Lowell, J. , Zakaras, L, *The Performing Arts in a New Era* , RAND Corporation, 2001.

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- 2.25. The broad argument of the Rand report seen by some as overly deterministic and bleak when it was published twelve months ago. Since then, as the financial difficulties of a large number of mid-sized organizations are highlighted by regional and professional media, and as they actively and publicly explore strategies for retrenchment, alliances and merger, the thesis is gaining ground. The analytical roots lie in two principle factors – the impact of globalization and the cumulative impact of technological and demographic changes on the uses of leisure time. A trawl of European evidence would probably reveal a similar picture.
- 2.26. The sophistication of the comparative and evaluative standards of the publics for whose resources cultural institutions are competing is extremely high, as a result of lower travel costs, ready access to comparable products, and the sophistication of competing organizations themselves. In addition to peer institutions nationally and internationally, these competitors include universities (for scholarship), the leisure and entertainment industries and competing cultural institutions (for visitors and audiences), the entire cultural sector as well as sports (for sponsors), and the charitable sector (for philanthropy).
- 2.27. For actual and potential audiences and visitors, live performance and artifacts on plinths are competing for attention with *in situ* artifacts visited by way of increasingly inexpensive travel, and with exhibitions, objects, and performances accessed virtually and enhanced electronically through inexpensive technology. The specific experiential, contextual, and locational advantages of being in a particular place at a particular time to “consume” culture may need to be made more readily apparent if audiences are to be sustained. (It is the “particular time” constraint that puts the performing arts at some disadvantage vis-à-vis the visual arts when making their respective pitches to increasingly harried and leisure-time-deprived audiences.) Arts organizations cannot choose to compete – they are forced to.

Changing habits of consumption

- 2.28. Arts participation is also affected by changes in leisure-time patterns – as work-patterns change and people feel – and are³ – less able to commit in advance to blocks of time to attend and participate, preferring instead to sample entertainment and culture at short notice and at their discretion, a pattern that fits uncomfortably with the performing arts particularly.⁴ The structure of work changes as skilled employees have gained greater freedom to locate in the live/work environment they prefer,⁵ fitting work into hours and spaces that have traditionally been reserved for leisure.
- 2.29. Many commentators and social analysts have tracked the decline in civic engagement, volunteerism and, outside of some specific sports activities heavily promoted through commercial channels, collective participation in leisure activities. Indications that ‘civic privatism’ is on the rise, coupled with lower measures of social capital,⁶ suggest a changing social landscape that will challenge established patterns of arts provision. According to Robert Putnam, author of the pioneering study on the decline of volunteerism and community values *Bowling Alone*, technology is partly responsible for the transformation of leisure. He writes, “There is reason to believe that deep-seated technological trends are radically ‘privatizing’ or ‘individualizing’ our use of leisure time and thus disrupting many opportunities for social-capital formation,” that which holds society together.⁷

³ According to one estimate, leisure time in the United States has declined by about one-third for working individuals since 1971, and both men and women are spending more time engaged in work. John Kreidler, *In Motion Magazine*, February 16, 1996.

⁴ See *The Performing Arts in a New Era*, RAND Corporation, 2001, for the most recent consolidation of the arguments with respect to environmental threats to the nonprofit arts.

⁵ Joel Kotkin, *The New Geography*, New York, Random House, 2000, 119.

⁶ Robert D. Putnam, “Bowling Alone: America’s Declining Social Capital,” *Journal of Democracy* 6:1, The National Endowment for Democracy and the Johns Hopkins University Press, January 1995, 65-78.

⁷ Social capital is further defined as “features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.” *Ibid.*

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- 2.30. Putnam also links this trend to television and related domestic media such as cable and video rental: “The most obvious and probably the most powerful instrument of this revolution is television. Time-budget studies in the 1960s showed that the growth in time spent watching television dwarfed all other changes in the way Americans passed their days and nights. Television has made our communities (or, rather, what we experience as our communities) wider and shallower. In the language of economics, electronic technology enables individual tastes to be satisfied more fully, but at the cost of the positive social externalities associated with more primitive forms of entertainment.”⁸
- 2.31. As technologically-reproduced entertainment (CD, video, television, etc.) competes with live performances, leaving the home for entertainment has become one of several options, and audiences are less willing to commit blocks of time in advance or pay the high price (relative to recorded media) to take in live performances.
- ? Since 1985, Americans have been spending more time watching television than any other leisure activity. According to Robinson and Godbey, “watching television not only took over time spent on ‘functionally equivalent’ media activities (such as radio, movies, nonfiction), but also made inroads on other free-time and non-free time activities.”⁹
- ? According to the 1997 NEA Survey of Public Participation in the Arts (SPPA), the rates of participation for broadcast or recorded media were more than twice the rates for live events;
- ? Television is increasingly the means of “participating” in the visual arts. 45 percent of American adults reported that they had watched a television program or video on the visual arts or a museum exhibition in the 12 months prior to the NEA survey;¹⁰
- ? As older audience members for the performing arts reach their mid-70s, they increasingly choose recorded over live entertainment. The 1997 NEA SPPA notes that nearly 75 percent of the respondents over the age of 74 participated in the arts via recorded media.

⁸ Ibid.

⁹ John P. Robinson and Geoffrey Godbey, *Time for Life*, University Park, Penn State Press, 1997, 136.

¹⁰ National Endowment for the Arts, “1997 Survey of Public Participation in the Arts: Performances or Exhibitions,” Research Division, Note #70, September 1998.

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- 2.32. In order to compete with the convenience of television, arts organizations will increasingly have to offer forms of entertainment that television cannot provide, such as social experiences linked to place and interaction with the art or artist. Most currently do not.
- 2.33. The recent trends toward the privatization of public space, enclosure of shopping malls, more self-contained, inward-looking buildings, and gated communities, discussed further below, tend to exacerbate these trends.¹¹
- 2.34. Finally, patterns of arts attendance are further affected by the erosion of arts education over the past twenty years. This is usually marked by the passing of Proposition 13 in California, after which several cohorts passed through the schools system with little opportunity to acquire the ‘habit’ of arts consumption. Other challenges facing arts education include competition for time in the curriculum, budget shortfalls in which the arts are often the first to be cut, lack of accountability due to the problem of measuring arts achievement against standards, and long-standing stereotypes in which the arts are seen as a recreational activity rather than a core, skill-building activity.

View from the field...

Gaining the Arts Advantage is a 1999 survey of the American public school districts that have made literacy and competence in the arts one of the fundamental purposes of schooling for all their students. The report documents not only some of the best practices and strategies regarding staffing, programs, and facilities, but also how these districts developed and sustained arts education in the face of the enormous pressures on them to prove the success of their schools by accountability measures that focus largely on reading, math, and writing.

The main finding of the study is that the presence and quality of arts education in public schools today requires an exceptional degree of involvement by influential segments of the community that value the arts in the total affairs of the school district: in governance, funding, and program delivery. Although responses and experiments vary widely according to local contexts, the study shows that the more intensively the factors occur, the stronger the presence of quality arts education in schools.

¹¹ See also Charles Landry, *The Creative City: A Toolkit for Urban Innovators*, Comedia, Earthscan Publications, Ltd. London, 2000, 120.

Implementing and sustaining an essential level of agreement among formal and informal leadership in the community and school on the importance of arts education requires a sufficient presence of the critical success factors to achieve a level of quality that keeps the consensus intact. These critical factors include:

- ? The community – active engagement in the politics of the arts and instructional programs of the district, as well as close parent/public relations.
- ? Leadership and human resources – committed Boards, superintendents, district arts coordinators, school principals.
- ? Continuity between leadership and educational programs – with elementary education providing the foundation for strong programs throughout the system.
- ? A dynamic and aspirational vision –teachers are encouraged to develop their mastery of an art form as well as their teaching competence; school districts promote reflective practices at all levels of the schools to improve quality, or opportunities are offered for higher levels of achievement through specialized arts programs.
- ? Planning for and securing diversified funding, including from national, state, and local levels, supported by other outside programs and complementary policies.

Arts for All, Los Angeles County Regional Blueprint for Arts Education, released in summer 2002, presents a comprehensive series of policy changes, educational initiatives, and the establishment of a new infrastructure to ensure that the county's 1.7 million students receive a quality, sequential arts education. Recognizing as a core principle that arts education is an integral part of basic education for all students and building on the findings of *Arts in Focus*, the Arts Commission's 2001 report that details the status of arts education in Los Angeles County schools, the Blueprint includes the specific steps that stakeholders, including funders, can take to create systemic change.

The Blueprint states that during the past two decades, there have been three primary instructional delivery systems in arts education in LA County schools and that a successful mechanism for change would encompass these three approaches:

1. Integrating the arts into core curriculum by training classroom teachers to utilize the arts in teaching reading, math, history and other subjects.
2. Teaching the arts as distinct subjects by credentialed arts teachers.
3. Bringing professional artists into the classroom to provide arts instruction.

The Blueprint was adopted by the Los Angeles County Board of Supervisors, the LA County Arts Commission and the LA County Board of Education, and each organization is now developing a plan of action for the strategies that fall under their responsibility. A County Task Force on Arts Education, formed by the County Board of Supervisors and staffed by the 2 other agencies, will monitor the project.

Both the *Arts For All* and the *Arts in Focus* reports are available from LA County's website: <http://www.lacountyarts.org>

A national snapshot

2.35. In summary:

- ? The trend towards under-funded growth has its roots in the economics of arts organizations – specifically their need to secure contributed income and the relative difficulty in securing the *full costs* as opposed to *marginal costs* of programs;
- ? Specifically, there is a perverse and inverse relationship between the general attractiveness of the form of support to funders and the contribution that the support makes to the longer term stability of the cultural sector and to the individual organizations of which the sector is comprised. This presents challenges to both funders and the sector;
- ? The general dilemmas of a thinly capitalized but growth-oriented sector, inadvertently encouraged in its growth by funding opportunities available, are likely to be exacerbated by wider changes in the economic and social context of nonprofit cultural organizations.
- ? These changes include: the adverse impact of globalization on local but not necessarily artistically distinctive professional organizations; the adverse impact of the interaction between technology and demographics on the audience for live entertainment; the increasing privatism of the general populace; and the erosion of arts education within the public schools system during recent decades.

3. The regional and local picture

3.1. There are three broad areas in which Arizona is distinctive that are relevant to the vitality of Arizona's arts organizations.

- ? Demographic changes: Rapid population growth, increasing urbanization, large movements of the population in and out of the state, and an age distribution pattern that makes for a fragmented and uneven demand for cultural amenities, with aging boomers or retirees on one end and an ethnically and socially diverse youth market on the other;
- ? The tensions between 'center and periphery': the many cities in the Valley that challenge the traditional notion of a cultural downtown or city center and that make a collaborative and strategic context for capital investment challenging;
- ? An uneven educational system state-wide that faces many challenges and in which the provision of arts education is limited.

Population Growth and Urbanization

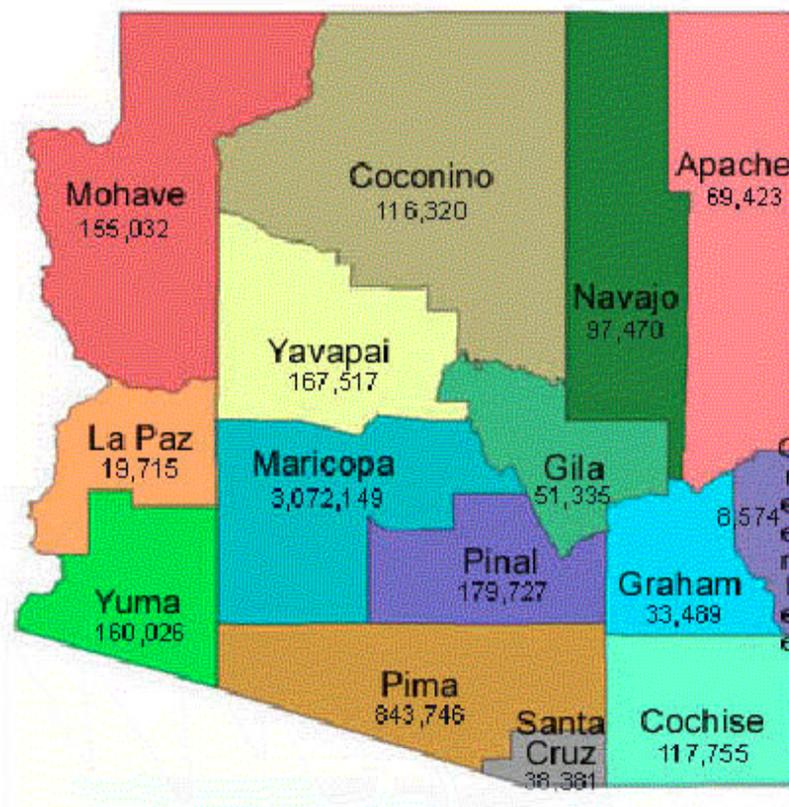
3.2. Arizona has been a fast growing state since it became one in 1912, but its population increase in the last decade (from 1990 – 2000) was particularly significant. During the decade of the 1990s, Arizona gained 1.47 million people – a 40 percent growth rate – bringing its total population to some 5.13 million. In comparison, the national population grew by only 13 percent. Arizona was the second-fastest growing state in the union during the 1990s, beaten only by Nevada, and its growth is part of a wider phenomenon of the redistribution of the American population to Southern and Western states.

3.3. Other relevant aspects Arizona's population growth during the last decade include the following.

- ? 65 percent of Arizona's new residents (950,000) settled in Maricopa County (which, along with Pima County, comprises the Phoenix-Mesa metro area);
- ? 85 percent of Arizona residents now live in major metropolitan areas (the Phoenix and Tucson metroplexes);

- ? Five of the nation's fifteen fastest growing cities with populations more than 100,000 are in Arizona;
- ? The larger Metropolitan Statistical Areas (MSAs) of Phoenix-Mesa and Tucson together comprise 94 percent of the total population, with the Phoenix MSA holding 77 percent of residents and Tucson 17 percent;¹²
- ? Arizona's population is increasingly urban and ranks 9th among states in the nation in terms of its urban population percentage (87.6 percent in 1996, compared to a national percentage of 79.9 percent).

3.4. The current population distribution among Arizona counties is mapped below.



¹² According to a March 2000 Census Bureau report, in 1999 the Phoenix-Mesa population was over 3 million and it alone had increased by about 775,000 (34.6 percent) since 1990. According to these 1999 figures, this change was due primarily to net domestic in-migration (396,000 more arrivals from elsewhere in the state and the country than residents moving away), and because of a large natural increase (238,000 more births than deaths), in addition to a continuing influx of new immigrants (a net increase of over 62,000, more than half of which were from Mexico).

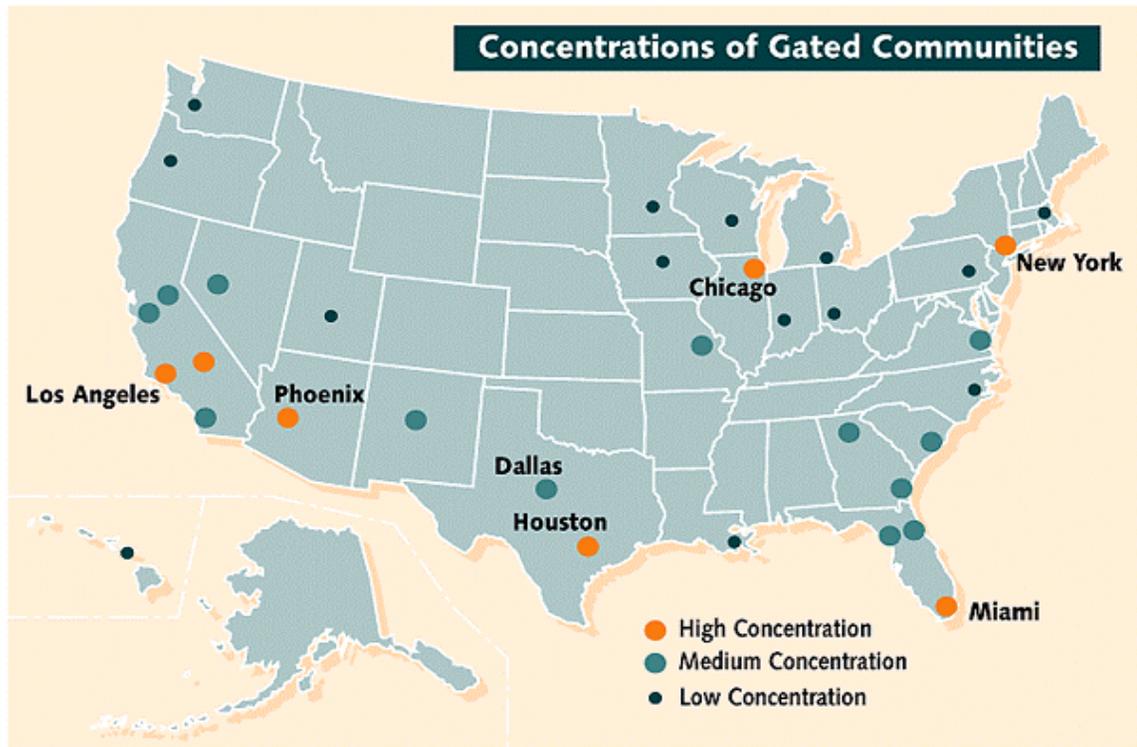
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- 3.5. The rapid urban growth has led to concerns about quality of life. According to the 1999 “What Matters” study by the Morrison Institute, almost three quarters of Maricopa County’s population is concerned about rapid urban growth, particularly as it impacts broadly upon quality of life: 37 percent are “somewhat concerned” and 43 percent are “very concerned.” This general indicator suggests that Maricopa County residents are particularly sensitive to ‘big city’ problems; the Los Angeles region is often cited by residents as “what we don’t want to become.” As the Phoenix metroplex becomes larger and larger, its residents grow increasingly concerned about the negative effect this has on quality of life.

Privatism

- 3.6. At the same time, technology and wealth has made it possible to withdraw from certain realities of the environment. According to Edward J. Blakely and Mary Gail Snyder, of the Lincoln Institute and UC Berkeley, respectively, Phoenix has a high concentration of gated communities compared to other cities in the US (see map below).¹³ They estimate that three to four million and potentially many more Americans are seeking this new form of refuge from the problems of urbanization. Gated communities appeared in the 1980s primarily as retirement communities or secure enclaves for the estates of the very rich. However, the past few decades have seen a growth in middle and upper-middle class developments. Residents assert that such communities are attractive for their security and separation of leisure activities and amenities. One resident of a Houston, TX gated community was recently quoted in the *New York Times*: “People move here because they don’t want to deal with the traffic...it’s very important to live where you want to work and play.”¹⁴ If public communities are unable to reverse this, the trend toward privatization is likely to continue, along with increased voter resistance to tax programs or voluntary efforts to deal with problems outside the gates.

¹³ Edward J. Blakely and Mary Gail Snyder, “Fortress Communities: The Walling and Gating of American Suburbs,” *Land Lines*, September 1995, Vol. 7, No. 5 (Information graphic by Annie Bisset).

¹⁴ George Gene Gustines, “Inside the Gates, a Community Thrives (And No, There Isn’t a Moat)” *New York Times*, June 28, 2002.



High resident turnover – the ‘churning’ of the population

- 3.7. According to the ASU Center for Business Research’s “Population Estimates and Projections,” migration is responsible for approximately seventy percent of Arizona’s population change, and net in-migration in 2001 alone is estimated at 108,000. California accounted for nearly two-thirds of Arizona’s net migration between 1990 and 1994, and since the mid-1990s, immigration from Mexico has been an important source of Arizona’s net migration. Other main sources of migrants to Arizona are neighboring states New Mexico, Colorado and Nevada.
- 3.8. The recent Center for Business Research study states that for every three people who moved to Maricopa County between 1993 and 2001, approximately two left, resulting in substantial churn among the resident population. In the two large urban areas and in the state as a whole, young adults have dominated the migration flows. In Maricopa County, the 20 to 34 year old population dominates inflow while the 25-34 dominates outflow. Out-migration decreases through retirement age to the lowest out-migration in the 65-69 age group. Significantly, retirement age migration was *not* a particularly significant factor in the growth of the Phoenix area during the 1990s.

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- 3.9. The implication of this profile of population inflow and outflow is that audience development initiatives are difficult and the effectiveness of these initiatives aimed at younger adults may be weakened by attrition if this trend continues.

Growth of the Hispanic Population

- 3.10. Among the most significant and surprising findings of the recent decennial census is the pace of growth of the Hispanic and Latino population in America as a whole, which is particularly pronounced in Arizona. Arizona's current population is 75.5 percent white (compared with a national average of 75.1 percent). The population of other races is increasing more quickly: during the 1990s, the white population grew by 31 percent, the African American by 44 percent (although still only 3.1 percent of the population in Arizona compared with 12.3 percent nationally), American Indian by 26 percent (now 5 percent of the Arizona population compared with 0.9 percent nationally), and "other races" by 79 percent.
- 3.11. The number of Arizona residents who consider themselves Hispanic or Latino increased by 600,000, an 88.2 percent increase over 1990. Hispanics and Latinos now account for 25 percent of the population statewide (and make up 50 percent of the Yuma and 82 percent of the Santa Cruz border county populations). More than half the under 18 population in both Phoenix and Tucson is now Latino as are 36 percent of state residents in the same age group. The national average of Hispanic population is 12.5 percent.
- 3.12. Compared to the Phoenix metro area's 45.3 percent increase in population between 1990-2000, the Asian population there increased by 83.5 percent and the Hispanic population increased by 115.3 percent.¹⁵ The situation is similar in the Tucson MSA in Pima county: compared to Pima's 26.5 percent increase in population between 1990-2000, the Asian population increased by 53 percent and the Hispanic population increased by 51.6 percent. Asians and Hispanics went from 26.3 percent of the population to 31.5 percent. The increase in those two population segments accounted for more than half (51.3 percent) of the county's population increase.

¹⁵ Asians and Hispanics increased from 18.6 percent of the Phoenix MSA population to 27.2 percent. The increase in those two population segments accounted for nearly half (46.2 percent) of the metro area's population increase, the bulk of which is in the Hispanic population.

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- 3.13. Most of the Phoenix area region's Hispanic and African-American residents live in the city of Phoenix. A clear north-south racial divide exists along State Route 202/I-10, and this division is growing more dramatic, with the percentage of ethnic minority groups living in south Phoenix at 77 percent as compared to the north at 28 percent in 1995. Income, poverty and housing values follow predictable patterns according to this divide. This division also plays out in the schools in terms of racial profile and achievement, with Northeastern school districts averaging 87 percent white students in comparison to 20 percent in central Phoenix and 41 percent in the Southwest. The median rank of school district standardized test scores in the Northeast part of the metroplex is 73 for reading and 71 for math compared with 33 and 36 in the central area and 34 and 36 in the southwest, respectively.
- 3.14. These poor rankings continue into higher education. Eight percent of Hispanics over 25 in the Western part of the United States have completed four years of college, compared to 31 percent of whites, according to the Census and "Five Shoes." Furthermore, the percentage of Hispanics earning Bachelor's degrees from state universities in Arizona was just 12 percent, although they represent greater than 25 percent of the population.
- 3.15. It is primarily the urban ethnic populations that bear the weight of Arizona's high poverty figures. In 1996, Arizona ranked 6th in the nation in terms of the number of people below the poverty line. As of 2000, it ranks 8th. In 1996, 16 percent of the population was estimated to be living below the poverty line; this has decreased slightly. In 1996, statewide poverty was heavily concentrated in youths: 25 percent of people under age 18 and 30 percent of people under age 5. This statistic seems to have improved with now 23 percent of the under 18s living in poverty. Still, however, Arizona's deviations from the national averages are telling: 16 percent below poverty in Arizona versus 12 percent in the US, and 23 percent of under 18s versus 20 percent in the US.
- 3.16. One of the 'bottom lines' in the recent "Five Shoes" report by the Morrison Institute is that Arizona's future economic and social well being depends heavily on erasing the educational deficits of the state's young Hispanic residents, those who increasingly make up the statistical shortcomings of the state as a whole.¹⁶

¹⁶ Morrison Institute for Public Policy, *Five Shoes Waiting to Drop on Arizona's Future*, October 2001.

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- 3.17. By any measure, the Hispanic populations in Arizona will be of increasing significance in the years to come, which poses important questions for the state in terms of educational and employment-related priorities. These are reflected in, for example, the sensitive issue of the availability of bilingual education. Arizona currently ranks 7th in the nation in terms of percentage of the population five years and older that is not English speaking, with approximately 26 percent. And it ranks 4th in percentage of population speaking Spanish at home, some 20 percent (behind New Mexico, Texas, and California, respectively). These figures represent both needs and opportunities to which the arts community is reacting relatively slowly.

Age Distribution of Population and Implications

- 3.18. As one would expect given the heavy inflow and outflow of residents in the 18 to 34 year old age range, some with children under 10, Arizona's population is relatively young. More than half the population (51.3 percent) is 34 or younger. With a median age of 34.2 years (lower than the national median of 35.3), Arizona's population in five-year age groups is relatively equal at around 7.5 percent up to 44 years of age, when the percentage population in each quintile age group begins to decline. In comparison to the national population, Arizona shows a higher percentage population in the under 24 age group and the over 65s, although with respect to the latter, not by a wide margin.
- 3.19. For a state that is widely known for its retirement age population and second home living, the age distribution among state residents is counterintuitive. Given the increasing urbanization of the state, the increase in Hispanic population, and the influx of young adult residents, Arizona's population profile appears to be changing.
- 3.20. The Baby Boomers are beginning to turn 55, and, indeed, one in four Arizonans is a Baby Boomer. Several commentators have suggested a potential "brain drain" if Arizona's quality of life does not remain competitive; 56 percent of the state's 2.5 million working-age residents are among the 39-55 year old Baby Boomer generation. Life-long learning will clearly be important to Arizona's future cultivation of this population segment.

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- 3.21. As “Five Shoes” puts it, “Increasingly Arizona’s success will depend on how it reaches out to the best and the brightest.” Among these, the study includes “Yuppie baby boomers, who, at the peak of their productivity, may be anticipating an ‘active retirement’ with perhaps a different career, a new business or a return to school” and “Young knowledge workers, who, in their 20s and 30s want to do cutting-edge work in exciting places” (8). Among these younger knowledge workers, which the Morrison emphasizes are a key to Arizona’s future, “without exception Phoenix ranks low on measures of ‘overall environmental quality,’ ‘overall amenities,’ ‘arts and culture’ and ‘coolness’” (12). A burgeoning literature on creative cities and their role in providing an anchor for long-term wealth suggests that Phoenix has some specific challenges.¹⁷
- 3.22. There is a convergence of Boomers’ and young professionals’ preferences that center around quality of life and the dynamism and opportunities of place, including high quality schools, clean air, and opportunities to participate and be in interesting public spaces. In addition to the young 20s and 30s and the aging Boomers, however, the increasing youth of Arizona’s population suggests that resources, services and amenities need to be directed at the under 18 age group, a population target that would also weigh heavily with young professionals wishing to build families.

Center and Periphery Cities

- 3.23. One reason for each Arizona community’s desire for its own provision of services, arts or otherwise, is the dominance of a car culture and the lack of convenient public transport alternatives.¹⁸ It is simply easier to drive down the street than across the metroplex, and relatively few cities in the metropolitan areas of the state yet address regional provision and working collaboratively to ensure the area’s future, a point that was born out in interviews. There is no well developed metropolitan strategic planning mechanism for culture and a relatively weak strategic context in which to develop one. In macroeconomic terms, however, and as analyzed elsewhere in this report, the desire of each to have its own is difficult to sustain in the longer term.

¹⁷ See for example the review of the literature on creative cities in the *New York Times*, Ideas Section, Saturday, June 1, 2002.

¹⁸ Manifestations of this include the following ‘pipeline’ projects: the Avondale Performing Arts Center (2003); the Mesa Arts Center (Fall 2004); the Tempe Performing and Visual Arts Center (December 2002); the Scottsdale Waterfront Theater project; the Cave Creek Center

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- 3.24. Location, traffic patterns, and parking amenities clearly need to be considered when planning timing and location of cultural offerings. As multiple, neighborhood-like “downtowns” develop, it may become more practical for some forms of cultural production to travel to the audience, rather than have the audience travel to the production.
- 3.25. At the same time, the increasing urbanization of the state presents particular challenges in providing services beyond the bare necessities (health, roadworks, etc.) to rural areas. The deck is stacked against rural areas in terms of political clout and business interest. This tendency will increase in the future. Urban areas themselves are expanding incrementally but not sufficiently to make meaningful infrastructure connections to bona fide rural areas. Because of the patterns of development in a water-scarce state where servicing infrastructure is expensive, development tends to be *en bloc*, with a sudden transition from the intensely urban to the intensely rural, as is vividly demonstrated by any aerial view of the city (most dramatically by approaching the Valley at night by plane).

Arts and the education sector

- 3.26. There is growing evidence to support the common-sense assertion that the propensity to participate in or attend arts events (or to value their availability in a community even where one does not participate) has a high correlation with the availability of opportunities to become involved with some form of artistic activity as a child. (Most of those involved in the arts hold this as an act of faith, irrespective of the availability of statistically robust evidence.)
- 3.27. The tradition of arts education in Arizona dates back to the 1930s with the advocacy work of Mary-Russell Ferrell Colton, co-founder of the Museum of Northern Arizona in Flagstaff, who wrote *Art for the Schools of the Southwest – an Outline for the Public and Indian Schools* and ran an outreach program which for the first time brought art education to many of Arizona’s rural and reservation students. There has subsequently been a strong preoccupation with arts education, manifest more recently in, for example:
- ? Vision 2000 (1996): the partnership between AZ Commission on the Arts, AZ Alliance for Arts Education, Arizonans for Cultural Development, and AZ Department of Education;

for the Performing Arts; the Gilbert Performing Arts Center; the Loloma Area Cultural Center.

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- ? The Arizona State Board of Education’s stated desire to see the arts integrated as part of the curriculum, manifest in the requirement that graduating students:
- Be able to create in all four art forms – know and apply the arts disciplines, techniques, and processes to communicate in original or interpretative work;
 - Be able to create proficiently in at least one art;
 - Understand art in context – demonstrate how interrelated conditions (social, economic, political, time and place) influence and give meaning to the development and reception of thought, ideas and concepts in the arts;
 - Be able to proficiently use art as inquiry – demonstrate how the arts reveal universal concepts and themes. Students reflect upon and assess the characteristics and merits of their work and work of others.
- 3.28. However, the reality of arts education in Arizona is that the opportunity to experience arts education varies by:
- ? School location – many large high schools offer a variety of options; small and rural schools often lack the funds to hire the specialists to teach arts classes;
 - ? Arts discipline – most schools offer music instruction, many offer visual arts instruction; theater is often only available as text to be read in English classes; very few schools offer dance instruction except for the occasional physical education square or modern dance activity;
 - ? Grade level – arts education at the elementary and middle school levels is often less available or less rigorous.
- 3.29. This is in part because of the complexities of Arizona State’s arts education policy:
- ? Arts education is mandated for K-12. All four content areas are specified. High school graduation has a requirement of one credit for fine arts;

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- ? Standards exist in all four art form areas, but schools are not obliged to report out on the arts standards themselves (as opposed to math, sciences and basic literacy where reporting is requisite);
- ? There are licensing requirements for arts teachers. The arts requirements are not broken down further into specific content areas. However, individuals with elementary and secondary teaching certificates can specialize in teaching arts by passing the Arizona educators proficiency assessment-subject content test for arts.
- 3.30. The arts hold an ambiguous place in the school curriculum of Arizona because there are statewide standards, but schools are not required to report on their performance against these standards.¹⁹ The education system in Arizona is itself also undergoing a period of intense self-examination because of, *inter alia*, the impact of the demographic changes discussed above, with drop out rates and bilingualism in education near the top of the list; the state's place at the vanguard of the charter school movement; the chronic teacher shortage; and difficulties in securing a reasonable tax base when so many retirees have little incentive to support an educational system of which neither they nor their offspring will be beneficiaries.
- 3.31. The level and nature of arts education varies greatly by school district and even within school district, with some districts having full time, qualified and effective arts liaison officers and others having none. It is difficult to generalize about the state of arts education in the state because of the absence of aggregate data and the wide range of anecdotal evidence, ranging from models of best practice, such as Scottsdale's New School for the Arts, through to the high failure rate (10 percent) more generally in Arizona's 422 charter schools.

¹⁹ The Arizona State Board of Education was charged with adopting new standards in nine academic and workplace disciplines in 1995. Nearly a two-year process, the Arts Standards were adopted on April 28, 1997. There is, however, no effective mandate since the assessment, and the arts are now left to the discretion of the local school boards. Local advocacy is now a major issue in Arizona.

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- 3.32. What is clear is that many arts organizations, and not simply those that have an explicit youth orientation, such as Childsplay and the Phoenix Boys Choir, feel the weight of an on-going responsibility towards making good some of the deficiencies in schools' provision, but they feel their interventions are often arbitrary and un-strategic because they lack a larger supportive framework. They simply do what they can with the small number of schools that have some capacity to respond, or where there is a teacher or an administrator who steps forward to develop a partnership or respond to an approach. Knowing that latent, unfunded demand is so much greater than what they can reasonably be expected to supply, they prefer, sensibly, simply to ignore the wider issues and press on with concrete actions. While this makes sense as a 'coping' strategy – and indeed it is one that Arizona Commission for the Arts also follows in its education work – it highlights a major area of long-term concern in terms of both audience development and public policy. Unfortunately, it is likely to be 'crowded out' of Arizona's education debate by more pressing issues.
- 3.33. Shifting the focus to higher education as a resource, the dynamic changes. For the performing arts, the large number of presenters connected to educational institutions suggests that the policies of colleges and universities may strongly influence the ability to reach audiences.²⁰

²⁰ In 1995, 37 percent of the members of the Association of Performing Arts Presenters in the United States were educational institutions.

View from the field...

Arizona State University has a unit, ASU Public Event, which is one of the largest presenters of the performing arts in the Southwestern United States. It attracted an audience of nearly 400,000 in the year 2001 – 2002. ASU Public Events presents performing arts programs that range from theater to music to dance and includes nationally touring Broadway hits, celebrity acts, and multicultural programs, both contemporary and classical. The fall 2002 season will showcase such nationally-known productions as *The Producers*, *The Full Monty*, *Seussical: The Musical*, *Swing*, and *The Radio City Music Hall Christmas Spectacular*.

ASU Public Events presents in three primary venues: ASU's 3,000-seat Gammage Auditorium, on the Main Campus of ASU; ASU's Sundome in Sun City West and ASU's Kerr Cultural Center in Scottsdale. It is the mission of ASU Public Events to "Connect Communities" through the arts, by showcasing works that cross racial, ethnic, religious, social and international lines. Many of the artists participate in Outreach activities, which bring arts and cultural awareness to communities and schools. Outreach programs include internship opportunities for high school and college students, school matinee series, workshops, artist in residence programs and informal artistic presentations.

ASU Public Events works within the diverse communities of Central Arizona to create an academy that intends to be embedded in every aspect of community life, from leisure to learning, sports to science, culture to commerce and beyond.

4. The Arts Community's Perspective

- 4.1. We explored, through interviews, the extent to which the analysis of the challenging operating environment of arts organizations in Phoenix coincided with the perspectives of arts managers 'on the ground' and, on the basis of their reactions, sought their views on what other strategic issues they saw affecting their organizations over the next five years.
- 4.2. The picture of a tough and rapidly changing operating environment was born out repeatedly. The interaction of national and regional trends was reflected consistently and brought the picture into sharper focus.

The funding climate

- 4.3. The combination of a generally thinly capitalized sector, a cyclical recession and the repercussions of September 11 meant that most organizations concerns were financial.²¹ Almost all those who were interviewed after that date referred to the banner headline in the *Arizona Republic* of March 10 – “Valley Arts Struggle Financially” – and the income and expenditure projections scrupulously tabulated for the seven largest arts organizations. The article suggests, as did our own questioning of a wider range of organizations throughout Arizona, that the difficulties experienced are in the areas of increased costs, largely a result of programmatic expansion, only partially matched by increases in contributed income and earnings.
- 4.4. Aggregate data for Arizona's larger arts organizations suggests that private contributed income has doubled over the past five years, leveling off in 2000; earned income has a steady if modest upward trend, and public funding has been broadly constant. National Art Stabilization's analysis of the twenty-two organizations that have been involved in their stabilization programs shows a similar picture, broadly of incremental improvements in asset bases that stalled during the late 1990s, despite continued growth in programs.

²¹ For an analysis of the national impact of September 11 and its aftermath on the arts, see “Artistic Risk in a Period of Uncertainty,” Ford Foundation, posted at <http://www.aeaconsulting.com/site/a1takingrisks.htm>

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- 4.5. Interviewees' initial diagnoses, however, tended to see the causes as rooted in the cyclical downturn of the economy from the stock-market's peak in April 2000, and the diffused impact of the terrorist attacks of September 11, relating the challenges to short-term changes in financial circumstances rather than to longer-term challenges that manifest themselves in chronic financial stress. The initial prescription was equally straightforward: secure additional unrestricted funding to enable them to operate broadly at the level of activity desired.
- 4.6. However, when interviewees were pressed, the diagnosis was considerably more sophisticated:
- ? Corporate contributions are declining, partly as a result of the hollowing out of corporate America and the removal of headquarters to a handful of cities such as New York, Los Angeles and Chicago, and partly because of the combination of support migrating from community-based budgets to more focused marketing budgets. This, in turn, means that both community-related budgets *and* marketing budgets that cover arts sponsorship have shrunk, which has been further exacerbated by the general economic outlook. This trend, for which there is hard evidence, is unlikely to reverse and has a knock-on impact in terms of business leadership in the arts more generally.²²
 - ? Other patterns in contributed income are more difficult to discern. On the one hand the foundation scene has been transformed by the arrival of the Piper and the Pulliam (with combined assets of more than \$1 billion, over a third of the total value of foundation held assets in the state,²³ which overall have grown from \$340,000 to \$3 billion in fifteen years). However, their arrival has also caused a certain amount of uncertainty, which is likely to remain until their philanthropic strategies become apparent through the cumulative pattern of awards. This uncertainty has been exacerbated by the hiatus in new Flinn arts funding in the current year;

²² Its longer-term significance was challenged by one incisive interviewee who observed that corporate contributions were a one-off blip on the arts funding scene and that Phoenix was simply returning to the *status quo ante*. This may be the case, but expenditure and expectations have been ratcheted up to take the funding increase into account, regardless of its sustainability.

²³ The Pulliam's funds are, of course, shared with Indiana.

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- ? On the other hand, almost all organizations express frustration at the challenges of developing individual philanthropic supporters from traditional sources – through systematic cultivation of high net worth individuals with a passion for their art form or social mission. The challenge appears to be related to the wider phenomenon of ‘civic privatism’ discussed above – that is, the increasing willingness of affluent individuals to opt out of wider civic engagement and to retreat to physically or at least psychologically gated communities. Arizona is sometimes stigmatized as a low wage economy, but as recent data has demonstrated, this co-exists with considerable affluence. That affluence is not currently being tapped to the extent that it needs to be if arts organizations intend to sustain their current levels of activity; arts managers are aware of this but do not know how to do it. (The rising marginal cost of developing a large base of individual donors also has an adverse effect upon organizations.)
- 4.7. While interviewees were preoccupied with how to fund growth, few spontaneously or willingly contemplated the issue of *whether* continuous incremental growth was sustainable, usually citing the parallel growth of the state itself and the gap between mission and current programming as reasons for growth in their own programming.

Long term development

- 4.8. The issue of how to develop both audiences and supporters more generally is one that currently exercises arts organizations throughout the United States. Attention is moving from the supply side (broadly, how well organizations are run) to the demand side (whether demand can be stimulated for the product and if so, how). There are several drivers behind this shift of attention nationally: a growing imperative to extend the reach of arts organizations beyond their traditional constituencies if they are to access public or private funding that is broadly ‘social’ in purpose; a genuine desire to break out of the conventional middle-class, middle-aged, ethnically homogenous ghetto of arts provision; a realization that the ghetto is getting smaller as the habits of arts consumers are changing for reasons alluded to earlier, and manifest in, for example, the decline in subscription sales; and, in Arizona, the rapid demographic changes the state is experiencing. The Wallace Funds, in particular, have focused attention and resources in this area, including plans for some pilot programs in Arizona.

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- 4.9. The sensitivity to these issues is matched by a sense of isolation and, to an extent, fatalism in dealing with them. Many organizations feel they have neither the resources, the expertise, nor the institutional stamina to move far beyond their existing constituencies, even where they have experienced success in deepening the level of engagement of their core constituencies. The mismatch between their rhetorical public genuflections towards long-term audience development and the reality of what they are able to do leads to a sort of cognitive dissonance that causes them genuine discomfort. The most cost-effective marketing returns are to be had in drilling deeper into the current constituency. Most increases in visitors and subscribers are secured through increases in volume (in the case of the performing arts) or profile (in the case of the visual arts – the blockbuster phenomenon) that are expensive and often, in terms of results, transitory. The marginal cost of audience expansion and, in some cases, retention is a cause of growing concern.
- 4.10. The extent to which arts organizations have embraced the scale of change in the ethnic composition of the state varies considerably, partly reflecting the adaptability of programming and the centrality of social inclusiveness to mission (Childsplay, for example, or the Museum of Northern Arizona), and partly reflecting the extent to which the organization’s strategic antennae are alert to longer term changes in the market.

The mood

- 4.11. Arts organizations are micro-businesses. Even the largest of them are, by private sector standards, modestly scaled small businesses. They invariably exist ‘against the odds’ and are testimony to their boards’ and staffs’ commitment, sometimes dogged, sometimes inspired, to the programs they undertake. The more successful organizations are run by social entrepreneurs who consistently find ways to beat the odds. What passes for realism or objectivity in less committed circles is often dismissed in senior management and board forums as defeatism and an unwillingness to rise to the challenge inherent in a vocational commitment to the arts. The show must, proverbially, go on.

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- 4.12. This psychology, the culture that it engenders, and the sheer press of daily business means that it is often difficult for arts managers to find a ‘voice’ with which to express objective concerns about long term issues, particularly when they seem intractable. The result of that suppressed stress and doubt can lead to a veering between a public Polyanna and a more private Cassandra. This ambivalent suppression of latent concerns, often articulated obliquely in references to the longer-term prospects of ‘other’ organizations, appeared to typify the responses of many interviewees. This draft report may offer a context to ‘surface’ some of these concerns.

Leadership

- 4.13. The issue of non-executive leadership of the arts in Arizona, alluded to above in the context of the phenomenon of ‘hollowing out’ of corporate Phoenix, is something to which the majority of respondents returned in the general issue of governance. The perception is that Arizona suffers from particular problems in creating strong, effective and committed boards for a number of reasons:
- ? The fragmented character of Arizona’s demographics;
 - ? In particular, the lack of a primary allegiance to ‘place’;
 - ? In the Valley, the lack of a strategic planning context and of pan-regional leadership;
 - ? A generational hiatus in political leadership – manifest in the anticipated turnover in leadership caused by retirements anticipated in state and local elections over the next few years;
 - ? The large number of candidate board members that are not year-round residents and for whom, therefore, regular board participation is problematic.
- 4.14. The result is perceived to be boards that are dysfunctional when compared with best practice and for reasons that are beyond the control of even the most energetic management. Similar sentiments are expressed by most arts communities, and where some of these conditions do not hold – for example, New York – then the lament is that mid-sized arts organizations have difficulty in getting board leadership engaged when there are so many larger or higher profile organizations with which they need to compete.

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- 4.15. That said, there are objective grounds for concern in Arizona, related to the confluence of specific factors – the issue of strengthening civic leadership is one that extends well beyond the arts and is of ongoing debate within Arizona. Arts leadership is simply one manifestation. Strategies for governance that embrace – rather than seek to ignore – the reality of the situation are needed.

Strategic responses by arts organizations to the changing environment

- 4.16. Based on both the data and the responses of interviewees, a strategic response by arts organizations would include some or all of the following.
- 4.17. Arts organizations and their funders should accept the reality that strategies that *adapt* to the environment rather than ones that seek to *influence* it are probably more likely to pay off – experiments with satellites under consideration by ATC and the Heard are cases in point – as the trends are unlikely to be reversed. As one interviewee put it, ‘Think through the variables you can control, not the ones that you cannot.’
- 4.18. Rural priorities are axiomatically expensive ones and will be neglected if they are not explicitly prioritized. Despite the low importance accorded to arts and culture in the Morrison quality of life study, the sector is a positive aspect of quality of life in the ‘big city,’ while the majority of residents are concerned about negative qualities—another reason for urban-focused investment.
- 4.19. The changing Arizona context therefore suggests areas in which arts investment could be most strategic and that therefore may be of greatest interest to funders. At the same time, these areas are important to the well-being of the state’s residents and general quality of life:
- ? *The Hispanic Population*—currently more than a quarter of state residents (more than double the national average) and rapidly growing, particularly in border counties and urban areas. The size, interests and education patterns of this group need to be assessed and embraced more vigorously and more imaginatively by arts organizations;

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- ? *Urban areas*—in which more than 85 percent of the population resides, a percentage that is increasing, need strategically to be shaped into dynamic public centers where people choose to gather, work and play – requiring a greater understanding by policy makers of the potential contribution of the arts;
 - ? *Maricopa County*—in which 60 percent of the population resides, is also increasing. The tension between public places and urban sprawl is great. However, the role of the arts in shaping the character of metropolitan centers should not be underestimated;
 - ? *Baby Boomers*—a central market segment to Arizona’s competitive advantage, for which program provision may need to be rethought. This is a group with very high-level skills. As volunteers at small and mid-size arts organizations they have the potential to make a significant contribution to the health of the sector. However, their needs and desires for return benefits will need to be assessed, as these are unlikely to be identical to previous generations;
 - ? *Younger adult audiences*—the population aged 18 to 39 because of its high concentration and the need to stem out-migration and retrain and attract brainpower among residents of this age group. Cultural amenities attract knowledge workers to the region, foster creative entrepreneur-friendly environments, and create retail-friendly zones;
 - ? *Teenage and child-age audiences*—the under-18 age group is a high-risk group within the state, and programs that incorporate youth education and outreach might go some way towards improving the situation. Partnering with school systems or funding outreach initiatives of individual organizations are two means by which this might be accomplished.
- 4.20. Arguing against this focus on the under-40s, however, is the fact that this group is highly unstable—it perpetually recycles itself (large inflows are countered by large outflows, on roughly a three to two basis). The likelihood of an Arizona resident remaining in Arizona increases with age; in the under-40 age group, whatever funding benefits have accrued, they are more likely to be dispersed beyond the state’s borders. This process may, however, be slowing with the rise in the Hispanic population and the slight decrease in importance of the percentage contribution of net in-migration to overall population growth.

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- 4.21. In the concluding section of “Five Shoes,” the authors present responses to a survey regarding the image that residents would most like the Phoenix region to project. Heading the list is “Great quality of life.” Ranking 5th and 6th, however, are “Art and cultural entertainment” and “Diverse ethnic and cultural heritage.” *There may be support within the community for the development of a stronger cultural identity for the region.*
- 4.22. Arts organizations in Arizona also have certain advantages in facing the challenges ahead. Many arts organizations are ideally suited to adapt to what has been described as an “experience economy.”²⁴ The premise of the argument is that people are in search of *experiences* as much as goods and services. Our expectations of even pedestrian experiences such as shopping or traveling through an airport have been raised by marketing techniques that invest these activities with a heightened significance, spurious or actual.
- 4.23. Arts organizations that are able to promote the enlightening and personally transformative aspects of their offerings will be better able to lure people off their couches, especially if the consumption of culture is combined with some other form of experience – eating, shopping, taking in another art form, browsing through a bookstore, ambling through a garden, taking a continuing education class, etc.
- 4.24. Arizona has an opportunity to expand audiences as demographics change and a growing number of baby boomers enter “active retirement.” As a retreat/self-growth/workshop destination, Arizona attracts arts-friendly tourists. Venues and organizational structures may evolve in order to more flexibly engage these peripatetic audiences through multipurpose spaces and traveling productions.
- 4.25. For Arizona to be more attractive to *cultural omnivores* – new culture consumers who do not distinguish between high and low culture, nor between native and foreign culture – cultural programming will have to conform to fit their tendency to multitask and leave commitments to leisure time activities until the last minute. Performing arts events, again, will have to be very close to other amenities, such as bookstores and shops, in order to attract the sampling curiosity of this new breed. Many spaces, in turn, may evolve into hybrid and multipurpose places, if they have not already.

²⁴ Meaning, “experiences represent an existing but previously unarticulated genre of economic output.” See B. Joseph Pine III and James H. Gilmore, *The Experience Economy: Work is Theater and Every Business a Stage*, Boston, Harvard Business School Press, 1999.

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- 4.26. Given the state’s interest in attracting and keeping younger knowledge workers, it will be important to tighten the net through which so many potential long-term residents in their mid-twenties slip out of the state, citing as some of the reasons they leave urban sprawl and the lack of training programs and cultural diversity. Arizona’s hope for itself is to be a technology leader in the future. It seems that this would mandate that it become more attractive to “the creative class.”

The creative economy and the factors that make places creative and attractive for more creative workers have come under increasing scrutiny. The latest in this field is Richard Florida’s ranking of creative cities in “The Rise of the Creative Class: And How it’s Transforming Work, Leisure, Community and Everyday Life” (BasicBooks, 2002).

Richard Florida’s theory directly relates cities’ prosperity to the amount of their “creative class” population, which comprises doctors, lawyers, scientists and almost all people who are paid to think for a living. Although it does not perceive itself as a single, homogenous class, the creative class shares a common ethos that values creativity, individuality, difference, and merit and is evaluated at about 30% of the American workforce - up from under 20 % in 1980. “Creativity has come to be valued because new technologies, new industries, new wealth and all other good economic things flow from it.”

Prof. Florida argues that creative- and knowledge-workers are attracted by tolerant environments and a diverse population, and that “bohemians”, in other words artistically creative people (painters, musicians, dancers, authors and the rest), are a significant indicator of a city’s creativity level. As a consequence, cities that are bohemian-friendly are more likely to support or boost their economy.

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- 4.27. The semi-symbiotic yet often-competitive relationship between for-profit and not-for-profit entertainment, coupled with technological advances in media and distribution, make this a very dynamic time. By conservative measures, consumer spending on the arts, entertainment, and communications was \$180 billion in 1995.²⁵ The nonprofit arts have some very rich relations. Their contribution to the for-profit entertainment industry in the form of “R&D” or incubation should not be overlooked. When there is the potential to increase earned income, arts managers do not always know how to form a for-profit collaboration.

View from the field...

In the theater especially, there has been considerable experience with crossovers and exchange of practices between the for-profit and the not-for-profit parts of the arts sector. New York nonprofit theater is increasingly making its presence felt on Broadway, with successful shows mounted by non-profit theaters moving to the theater district and running for as long as they are profitable, as well as a more assertive physical presence.

- ? In 2000, the Roundabout Theater reopened the Selwyn Theater on 42nd Street, with the controversial American Airlines Theater name attached to it, after an \$8.5 million corporate gift over 10 years.
- ? The Manhattan Theater Club will move into the refurbished Biltmore Theater on 47th Street in the fall of 2003 with a lease-purchase agreement, which means that it will eventually own the facility.
- ? Broadway producers now regularly rent their theaters to non-profits, and co-produce with non-profits.
- ? The New 42nd Street, a not-for-profit corporation created to find a suitable and profitable for six old and derelict theaters in the early 1980s. The new corporation not only restored the 6 theater houses in disrepair, but also created a children’s theater, as well as new office and rehearsal building for the arts, leased theaters to two corporations while keeping preservation and usage mandates intact, and negotiated the siting of a multiplex movie theater and a wax museum in or near its properties

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David B. Pankranz, *Intersections Between the Non-profit and For-profit Arts*, Los Angeles, ARTS, Inc. (Prepared for *Arts, Culture, and the National Agenda*).

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- 4.28. Cultural organizations increasingly serve as the repositories for the traditions and expressions of cultures that have been absorbed into the American mainstream. Exhibits and events that showcase a local community and authentically connect with that culture’s history and experience will be of significant interest to second and third generation Americans.

View from the field...

The Museum of Chinese in the Americas (MoCA) was founded in 1980 in New York’s Chinatown as a community-based organization by Jack Tchen and Charlie Lai and Chinese-American artists, historians and students who felt that the memories of first-generation “old-timers” would be lost without oral history, photo documentation, research, and collecting efforts.

Now a focal point of the community’s cultural life, the Museum has evolved into the keeper of the community’s cultural history. Founded as the New York Chinatown History Project, it changed its name to the Chinatown History Museum in 1991, and to the Museum of Chinese in the Americas in 1995. Central to the Museum’s identity is interconnectedness and the possibilities of broader civic and national participation. Although rooted in a specific community, it’s identity and programs are not circumscribed by ethnic essentialism. Instead, MoCA nurtures a dynamic (dialogic) relationship between an historical project – i.e. document, reconstruct, reclaim the history of a particular local ethnic community – and a social and moral project. It addresses the Chinese community of New York, but because it ties this community’s history to the cultural formation of the Lower East Side and New York City at large, the museum also addresses this broader constituency.

Begun without a collection, the museum’s holding grew through the participation of the community. Public programs were integral to the effort to document and understand the community better: reunions were organized (for example with alumni of PS 23, the main school serving Italian and Chinese children on Mulberry and Bayard Streets) and donations to the collection were encouraged.

Programs include:

- ? Historical reunions where participants are encouraged to bring historical photographs and talk with trained oral historians; groups are also encouraged to donate documents, photographs, artifacts, costumes etc. that document their experience;

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| <p>? Family history and genealogy workshops where adults are trained in genealogy techniques and conducting family oral history projects;</p> <p>? Films, videos, slide shows followed by discussion.</p> |
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4.29. There are no glib, 'one size fits all' answers to the challenge of creating or, more relevant, maintaining an artistically vital, socially valued, financially viable arts organization. Like democracy, it requires 'eternal vigilance.' Reflecting on the changing environment and thinking through the challenges and opportunities that those changes can involve is a central part of that vigilance. The intention is that this paper at least provides a context for some of that thinking.

AEA Consulting
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Appendix: Interviewees

Robert Allen	Theater Division Manager, City of Phoenix
Jacky Alling	Executive Director, Arizona Alliance for Arts Education
Tom Ambrose	Sr. Vice President Public Affairs, Phoenix Suns
Jessica Andrews	Managing Director, Arizona Theater Company
James K. Ballinger	The Sybil Harrington Director ,Phoenix Art Museum
Richard Bowers	President ,Herberger Theatre Center
Cheryl Brock	Executive Director, Flagstaff Cultural Partners
Tom Browning	President, Greater Phoenix Leadership
Steve Carr	Partner, The Kur Carr Group, Inc.
Shelley Cohn	Executive Director, Arizona Commission on the Arts
Gene D'Adamo	Director Community Relations, The Arizona Republic
Bennett Dorrance	President, Dorrance Family Foundation
Marcie Ellis	Executive Director, West Valley Fine Arts Council
Frank Fairbanks	City Manager, Phoenix City Hall
Susan Franano	Executive Director, Tucson Symphony Orchestra
Rosemary Gannon	Corporate Contributions Administrator, Salt River Project
Becky Gaspar	Executive Director, Arizonans for Cultural Development
Frank H. Goodyear, Jr.	Director, Heard Museum
Diane Halle	Trustee, Herbert K. Cummings Charitable Trust
David Hemphill	Executive Director, Black Theater Troupe, Inc.
MaryAnn Ingenthron	Executive Director, Tucson-Pima Arts Council
Harriet Ivey	President/CEO, Nina Mason Pulliam Charitable Trust
Edward Jacobson	Attorney, Snell & Wilmer
Frank Jacobson	President & CEO, Scottsdale Cultural Counsel
Gail Jacobson	Executive Director, Patagonia Creative Arts Association
Colleen Jennings-Roggensack	Executive Director, ASU Public Events
Philip Jones	Executive Director, Phoenix Arts Commission
Andre Licardi	Director of Arts Education,Peoria Unified School District
Valerie Manning	President & CEO, Greater Phoenix Chamber of Commerce
Steve Martin	Managing Director, Childsplay
Rob Melnick	Director, Morrison Institute / ASU
Barbara Meyerson	Youth Museum Administrator, Arizona Museum for Youth
Herb Paine	Consultant, Paine Consulting Services
Bill Post	Chairman & CEO, Pinnacle West Capital Corporation
Maryann Pulk	Executive Director, Phoenix Boys Choir
Guillermo Reyes	Assistant Professor, Department of English / ASU
Helen Schaefer	Volunteer Community Leader, Member, Arizona Arts Stabilization Committee
Maurice Sevigny	Dean, College of Fine Arts, University of Arizona
William Sheppard	Attorney, Gammage & Burnham Law Firm
Mark Sklar	Managing Director, DMB Associates
Dick Snell	Chairman Emeritus of the Board, Pinnacle West Capital Corporation
Joan Squires	Former President & CEO, Phoenix Symphony Orchestra
Jon Talton	Columnist, The Arizona Republic
Charlie Thompson	Manager Community Relations, Arizona Public Service
Don Ulrich	Arizona Board of Regents, RSI Enterprises, Inc.
J. Robert Wills	Dean, Herberger College of Fine Arts / ASU
Arthur H. Wolf	President/CEO, Museum of Northern Arizona