



Progress Report on Grantmakers in the Arts' National Capitalization Project

August 28, 2014

GIA launched its initiative on capitalization principles in 2010, providing conference sessions, publications, and a series of regional workshops. This report was commissioned from the Helicon Collaborative to help GIA better understand the value of local funder workshops presented in 2012 and 2013 and other capitalization efforts, and to survey the ways that funders are using capitalization principles in their work now. The report summarizes the findings and provides examples of forward-looking practices that may help other funders who wish to strengthen cultural organizations' financial health.

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Supported by a grant from the Kresge Foundation

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Introduction

“Capitalization is the accumulation and application of resources in support of the achievement of an organization’s mission and goals over time. A well-capitalized organization has the ability to access the cash necessary to cover its short- and long-term obligations, to weather downturns in the external operating environment, and to take advantage of opportunities to innovate.”¹

Or, more simply, capitalization is “having the cash to execute strategy.”²

The weak capital structures of most cultural organizations have been a problem for more than four decades, and have persisted despite numerous research reports on the consequences of inadequate finances and periodic large-scale philanthropic attempts to address the problem. Historical interventions include the Ford Foundation’s investments in endowment-building for symphonies, ballets and regional theaters in the 1970s, and the initiation of the National Arts Stabilization Fund in 1983. Nonprofit Finance Fund (NFF) and TDC research suggests that in some communities as many as 70 percent of cultural organizations may be inadequately capitalized. NFF’s 2014 national “State of the Nonprofit Sector Survey” reported that 30 percent of arts organizations ended FY 2013 with a deficit, and close to 60 percent have less than three months of cash on hand. Poor capitalization leads to “tight daily operations, sizeable liabilities, little to no reserves, inability to innovate or shift business models, aging or overbuilt facilities, and inappropriate or inadequate endowments.”³ This fragile financial situation compromises the artistic health and imaginative capability of cultural organizations, and erodes their long-term vitality.

Context of this Report

In 2008, the great recession threatened the solvency and viability of thousands of diverse arts organizations. This reminded us that the roots of these problems are structural, and sometimes aggravated by foundation behavior. Responding to these conditions, in 2010 Grantmakers in the Arts initiated the National Capitalization Project (NCP), a multipronged effort to expand funders’ knowledge about capitalization principles and encourage funding practices that promote financial sustainability in cultural organizations of all kinds. With funding from the Kresge Foundation and in-kind

¹ Cabral Curtis, Elizabeth. *National Capitalization Project 2010 Summary*. TDC. September, 2010. http://www.giarts.org/sites/default/files/capitalization-project_2010-summary.pdf

² PowerPoint presentation. “Capitalization and Community: A Dialogue with the Los Angeles Funding Community.” Nonprofit Finance Fund and TDC. February 7, 2014.

³ Nonprofit Finance Fund State of the Nonprofit Sector Survey http://nonprofitfinancefund.org/files/docs/2014/2014_arts_survey_results_summary.pdf.

support from the Ford and Hewlett Foundations, GIA commissioned a literature review⁴ and hosted two intensive working sessions with funders and experts in nonprofit finance. The *National Capitalization Project 2010 Summary*⁵ by TDC summarizes this early work, acknowledging the challenges of achieving greater fiscal health in the cultural sector and outlining funding practices that could help the nonprofit cultural sector become more financially stable and sustainable.

The TDC report made it clear that one of the first steps toward strengthening the financial health of the nonprofit arts sector is for funders to make a commitment to change their own behavior and practices. Funders' self-reflection and change in practice must precede (or at least accompany) expectations that cultural organizations alter their own practices. GIA committed itself long-term to helping funders make this shift – making capitalization a prominent topic at its annual conferences, publishing frequent articles about capitalization in the *GIA Reader*, and conducting online webinars. In 2011 GIA commissioned TDC and NFF to create a workshop for funders. From 2012 to 2014, with support from the Kresge Foundation, the Paul G. Allen Family Foundation, and 28 local funders,⁶ GIA hosted in-depth capitalization workshops for funders in 14 cities across the country. These workshops, led by experts from NFF and TDC, involved more than 265 diverse funders representing family foundations, independent foundations, community foundations, corporate foundations, and public agencies, as well as a few individual donors. Information generated by NCP is available on GIA's website www.giarts.org/article/national-capitalization-project.

GIA commissioned Helicon Collaborative in early 2014 to help it better understand the value of its NCP workshops and other capitalization efforts, and to survey the ways that funders are using capitalization principles in their work now. This report summarizes our findings on how the GIA workshops influenced funders' thinking and practice related to capitalization and provides examples of forward-looking practices that may help other funders who wish to strengthen cultural organizations' financial health.

Methodology

Helicon's study included 33 interviews with workshop participants, review of materials from the workshops (including presentation materials and evaluation questionnaires), an electronic survey of GIA members and workshop attendees, conversations with GIA staff, and a review of capitalization research. Interviewees were chosen to represent a range of funders by budget size, type of foundation, and arts funding focus. We interviewed at least two participants from 14 workshop locations.⁷ The survey was emailed to 839 people, which included all of the workshop attendees (some of whom

⁴ Cabral Curtis, Elizabeth et. al. *Literature Review on Capitalization*. TDC, April 2010.

http://www.giarts.org/sites/default/files/capitalization-project_literature-review.pdf

⁵ *National Capitalization Project Summary*, https://www.giarts.org/sites/default/files/capitalization-project_2010-summary.pdf.

⁶ See Appendix A for a list of workshop locations and local funding partners.

⁷ Two additional workshops – in New Haven, CT and Charlotte, NC – are scheduled for later in 2014.

are not GIA members) and the entire GIA membership (many of whom did not attend a workshop). A total of 107 funders responded to the survey. Of those, 50 were workshop attendees and 57 were GIA members who did not attend a workshop. The response rate was 20 percent for workshop attendees and 10 percent for GIA members who did not attend a workshop.

Impacts of the Workshops

Helicon's review suggests that GIA's work on capitalization over the past four years has had a meaningful impact on funders' thinking and behavior. As one person said, "Capitalization has infiltrated the thinking of funders and organizations, in large part because of GIA. This is a big win." One funder summarized the key elements of GIA's capitalization work: "The research set the context for talking about capitalization, the conferences elevated the conversation to a higher level, and the workshops were a way to localize it."

One of the most important functions of the GIA workshops was to provide an opportunity for arts grantmakers in a city or region to come together and discuss the financial health of their local nonprofit ecosystem. The workshops and related materials gave funders a common language to discuss capitalization and understand their role in it. In some locations funders were already engaged in conversations about capitalization; in other places, this was the first time local funders discussed this topic together. Local alignment among funders is particularly important in addressing capitalization because, as many funders told us, capitalization is fundamentally a local issue. One funder noted, "Capitalization work needs to happen at a local level. Local funders are committed to their community for the long-term and best understand the role of local organizations within it. They also have a greater capacity to build the kinds of close, supportive, and transparent relationships with grantees that are critical to effective capitalization." In many places, funders have continued to meet since the GIA workshop to deepen their knowledge, discuss local conditions, explore collective responses, or take action together.

Helicon's research indicates that the impact of the workshops on funder knowledge and behavior correlated with each funder's previous level of knowledge and readiness for change. For some funders it was a revelation. One funder said of the workshop, "My eyes were opened. I became accountable because of this one conversation. Now I have language and context to understand the continuing challenges that existed in the nonprofit field, and I have a community to discuss these issues with. I also had an 'aha moment' about the damage I may have done in the past by not thinking in a holistic and long-term way about the financial needs of my grantees." Another said, "The workshop clarified that we are not asking the right questions as a funder." Other funders were more advanced in their thinking about capitalization before attending the workshops. For one funder who already provided general operating support, capitalization planning grants and risk capital, the workshop "didn't change our thinking as much as confirm it."

Another funder described it as a useful “tune up,” even though she knew the basics and had been practicing them for years.

Interviews and survey results suggest that the capitalization workshops were helpful in boosting participants’ understanding of several key elements of capitalization for nonprofit cultural organizations, including:

- The different types of capital required by organizations based on their circumstances;
- The difference between regular revenue (money for current operations and programs) and capital (funds that support an organization's liquidity, adaptability and/or durability);
- The importance of building liquidity for all organizations, and of building it through savings;
- How funder behavior can negatively impact organization’s finances and stability,
- The importance of funding general operating costs – separate from or in addition to support for programs; and
- How to determine liquid net assets from a balance sheet.

Categories of Funder Practices

Helicon’s analysis suggests that funders are moving to support better capitalization in nonprofit cultural organizations in four ways:

1. Conducting conversations with grantees, other funders and their own boards;
2. Providing general operating support and encouraging surpluses;
3. Expanding their capitalization toolbox and being intentional about providing the types of capital that grantees most need; and/or
4. Engaging in multi-funder partnerships and collaborations.

These categories are not mutually exclusive, although they range in intensity from light-touch to more time and resource-heavy. Each funder has different interests and constraints that influence its ability to engage with the issue of nonprofit capitalization, but we heard repeatedly that “there are paths toward capitalization for *every* funder.”

1. Conversations

Many funders that we spoke with recognize that simply starting a conversation with an organization about its overall financial strategy can be an intervention in itself, prompting applicants and grantees to begin thinking more holistically and strategically about the resources they need to do their work well over time. One funder noted, “Nonprofits are responsive to the messaging they’ve gotten from their funders. When groups come to me to sell their next big program, which is in response to what funders have encouraged for years, I have to bring the conversation back to overall financial health. I ask them, ‘What would it take for you to control your own destiny?’” While not responsible for providing all the funds an organization needs to become financially healthy, funders can play a key role in shifting organizations’ mind-sets – from a project

orientation and expectation of continuous growth to right-sizing for long-term health and sustainability. A large majority (82 percent) of survey respondents are encouraging grantees to get assistance with financial planning and business model development.

Interviewees stressed the importance of creating a new dynamic where organizations don't feel they will be penalized by funders for being honest about their financial realities or missteps, but can view funders as partners in their effort to achieve a more sustainable business model. This type of grantee-funder relationship requires more candor, and more time, to build trust. Nearly two-thirds of the survey respondents (68 percent) reported that they had been having in-depth conversations with grantees about overall financial strategy before attending the GIA workshop, and an additional 17 percent reported that they plan to do so as a result of the workshop. However, from the point of view of nonprofit cultural organizations, there is still a way to go in improving this dynamic. NFF's 2014 "State of the Nonprofit Sector" survey indicated that nearly 50 percent of cultural organizations respondents consider achieving long-term financial stability their biggest challenge, but very few feel they can have an open dialogue with funders about this. Only 12 percent feel comfortable talking to funders about developing reserves, for example. Only 11 percent feel they can discuss working capital, only 9 percent feel they can discuss flexible capital for change or growth, and almost none (2 percent) say they can discuss paying off loans.⁸

The workshops also facilitated new kinds of conversations between foundation staff and their own boards. Foundation boards are the ultimate decision-makers around funding policies and in many cases have a poor understanding of what is needed for cultural organizations to achieve fiscal health. Long-standing funder practices that can have negative impacts on organizations – such as not funding organizations with surpluses or not supporting cash reserves – need to be reexamined in order to improve field capitalization, and foundation boards must be engaged in this. Half of our survey respondents indicated that they had had conversations with their boards about policies and practices that support good capitalization, and 23% said they plan to do this in the future. Many indicated that GIA materials have been useful in aiding these exchanges.

An equally important conversation is the one that funders in a given community are having with each other. If some funders, whether individuals or institutions, act in ways that undermine strong capitalization or reward poor financial practices by cultural groups, it can jeopardize the efforts of other funders and send mixed messages to the cultural sector overall. As a follow up to the GIA workshops, more funders are talking regularly with their local colleagues about capitalization issues, and many are working together to continue their education in this area.

⁸ Nonprofit Finance Fund. *2014 State of the Nonprofit Sector Survey Arts & Culture*. Page 18 and 23. http://nonprofitfinancefund.org/files/docs/2014/2014_arts_survey_results_summary.pdf.

Some funders noted that one element that is still missing from most capitalization conversations and needs attention: the relationship between capitalization and equity. One funder told us, “There is a marked difference in the financial stability of large cultural organizations and that of smaller organizations and organizations that serve primarily people of color. We need to look not only at capitalization, but also at racial inequities and how to address this within the overall capitalization work.” The effects of historical funding patterns that have privileged some types of organizations and communities over others are still visible today in the capitalization patterns seen in the field. Some funders noted that many small and culturally specific organizations aspire to a model for “success” that is based on an old paradigm of perpetual growth and deficit spending, which – increasingly – is unsustainable for the vast majority of cultural organizations.

2. General operating support and surpluses

Flexible funding is critical to helping organizations make needed investments in overhead, risk management, and innovation. Our interviewees described providing operating support as the “entry level” shift in funder practice that could make the biggest difference in nonprofit financial health, even if no additional money is available. Overall, the percentage of arts funding dedicated to operating support rose from 19 percent in 1991 to 32 percent in 2011, which suggests this message is starting to get through.⁹ Survey respondents were much more likely than the general population of funders to provide general operating support, with 70 percent saying they do this.

While project support is still the most common form of arts funding (87 percent of survey respondents indicated they fund this way), many funders are complementing project grants with support for salaries or overhead (81 percent of survey respondents), or loosening restrictions on how organizations may use project funding (65 percent of survey respondents). A number of funders we interviewed also mentioned the value of multi-year grant commitments, which allow organizations to better plan and manage their finances.

The *National Capitalization Project 2010 Summary* stated, “Good capitalization hinges on the generation of surpluses which can be used to create the various capital funds that an organization may need for successful mission achievement.”¹⁰ Many funders we interviewed and surveyed understand the value of surpluses and are challenging the long-standing bias against them within the philanthropic field. For a long time, surpluses were seen as an indication that an organization had less need of funding than its peers who were operating on the financial brink. This funder practice actually discourages saving and implicitly encourages grantees to operate in survival mode. Increasingly, funders are recognizing that surpluses and cash reserves are a critical part of good,

⁹ Arts Funding Snapshot: GIA’s Annual Research on Support for Arts and Culture, *GIA Reader*. Fall 2013. Page 5. http://www.giarts.org/sites/default/files/24-3_Vital-Signs.pdf.

¹⁰ *National Capitalization Project Summary*, page 5.

sustainable business practice for nonprofits. Actively encouraging grantees to build surpluses (76 survey percent of survey respondents do this), or at least refraining from penalizing them, is a critical part of improving the financial health of the field.

3. Expanding the capitalization toolbox

Some funders we interviewed started by providing general operating support and encouraging surpluses, but are now supporting the financial health of their grantees in more targeted and sophisticated ways. A number of funders are supporting grantees to do capitalization planning and business model realignment. A smaller number of funders are going further in supporting grantees efforts to change by actually deploying flexible capital, such as risk, change, and working capital.

Many funders are working with grantees to help them assess and understand their business model and financial health. This includes putting more extensive questions about these aspects of applicants' work on grant applications (74 percent of survey respondents). Others find Cultural Data Project (CDP) data very valuable in assessing the financial health of organizations and tracking it over time. The Hewlett Foundation, for example, has identified seven indicators of financial health that it monitors, and has developed a dashboard that allows it to look at trends over time for individual organizations and its grantee pool as a whole. Hewlett is using this information as a basis for conversations with individual grantees as well as workshops for groups of organizations around common issues. A number of funders mentioned that NFF's financial health assessments help them understand organizations' financial status, and some funders are providing grants to support financial planning (55 percent of survey respondents) and business model shifts. It is critical that these capitalization plans are based on a robust market analysis of what funders and audiences are realistically willing to support. One funder said, "I'd like to be able to start funding organizations in a major way to think through the process of what full capitalization would look like for them and develop strategies to get there."

Other funders are going beyond supporting capitalization planning of grantees to actually creating new capitalization programs or significantly modifying existing programs to align with organizations' complex financing needs. These funders are using a broader range of tools to support financial health, and are getting creative about the funding mechanisms that they employ. For example, the Heinz Endowments bought the accumulated debt of one of its grantees in exchange for becoming a mortgage holder on the organization's building and a stipulation that it not take on new debt for five years. Actions like this require a long view and mutual trust, but they can make a significant difference in an organization's ability to sustain itself through challenging times or periods of change.

At present, relatively few arts grantmakers are providing more than project, planning or operating support. Only one-third of survey respondents indicated they are providing change capital (35 percent) or working capital (33 percent). An even smaller group is

providing loans (22 percent) and still fewer are providing debt reduction or recovery capital (18 percent). However, 21 percent of the survey respondents indicated that they intend to start providing change capital and/or working capital in the future, suggesting that there is growing recognition of the importance of these types of funds. Many interviewees expressed the desire to do more of this kind of funding, but acknowledged that changing the mind-set and funding policies of their funding institution will take time: “You don’t just completely change the way you fund after attending one workshop. This is a whole organization shift that requires buy in of our Board as well as program officers.” Those who are providing this kind of capital acknowledged that there are challenges to doing so. It can take many years of sustained investment to get results and things do not always work out as planned. Funders doing this type of funding emphasized the need to commit to organizations over a long period of time – as a partner who is disciplined and focused on long-term change, but prepared to weather ups and downs.

4. Multi-funder partnerships

TDC’s 2010 Capitalization Summary report recognized the power of joint funder action in shifting the nonprofit arts field towards a state of greater financial health: “In order to impact the sector, it will not be enough for individual arts funders alone to promote these principles. Rather, success will only be achieved by a group of funders coming together to understand and promote a common set of principles and behaviors in their grantmaking and by agreeing to have a different conversation with grantees.”¹¹ Getting a cohort of local funders to agree to and promote a common set of principles and behaviors is a challenging task, but important if sustained progress is to be made in the regional ecology. Multifunder partnerships are another option, more complicated than unilateral action, but holding great potential for system-wide change in organizations’ practice. Many interviewees noted that GIA’s NCP workshops were important in setting the stage for future funder collaborations, especially in places where funders had not previously felt common cause.

In a few communities – Boston and Portland, Oregon, for example – two or more funders are joining together to address capitalization among cultural organizations in their area. Joint funding ventures for capitalization encompass rigorous financial analysis for participating groups, planning grants, multiyear change capital grants, and technical assistance and ongoing assessment efforts. Collaborations such as these are relatively rare (22 percent of survey respondents indicated that are doing this). However, more than two-thirds of survey respondents (68 percent) reported that they meet regularly with other funders to discuss capitalization or do advanced study in this area, and in at least one community – Minneapolis – arts funders are hosting conversations about capitalization with funders in other sectors. Approximately half of survey respondents (54 percent) are jointly funding technical assistance workshops on capitalization for cultural organizations, and 45 percent reported that they are jointly

¹¹ *National Capitalization Project Summary*, page 4.

funding research about capitalization in their area. Grantmakers in places where funders have not historically worked together and have varying degrees of experience with capitalization expressed a desire for further support and guidance from GIA and others — a curriculum of sorts — to support continuing the conversation in their community.

Barriers to Change

The study results suggest that change is occurring and more arts funders are embracing strategies and practices aimed at improving the capitalization of cultural groups. As one funder put it, “It has entered the water supply.” However, over half of survey respondents say that they have experienced barriers in trying to implement practices that support good capitalization. We heard about challenges in a number of areas:

1. Foundation Boards

Board philosophy guides any foundation’s grantmaking and support at the board level is important for any significant changes in practice. More than 50 percent of our survey respondents indicated that they have engaged their boards in discussion about capitalization, and half of those indicated that GIA materials and resources spurred these discussions and have been instrumental in facilitating them. However, lack of support from boards remains the most significant barrier to change. Two-thirds of respondents (67 percent) who reported that they are experiencing challenges in implementing capitalization said this is an issue for them.

From our interviews we learned that many boards are still reluctant to provide operating support, change capital, or other “unrestricted” funding, fearing that they will not be able to control or measure the impacts of such investments. In addition, many boards hesitate to fund reserves for some organizations when others are struggling to stay alive. Many boards hold implicit or explicit beliefs about how nonprofit finances are “supposed to work,” including operating with extremely low overhead and running regular deficits, even though these are considered bad practice in the businesses where many board members work. One program officer said, “We might know that this is the right way to fund, but our boards don’t. They can run a successful business, but they have different principles for nonprofits.” And another interviewee noted a real – if banal – barrier to board support for capitalization is that it seems “dry and unsexy,” especially in comparison to project or program funding.

2. Funding institution staff

Many staff members of private and public funding entities have a misconception that “doing capitalization” requires fully meeting grantees’ capitalization needs. Because their funding resources are insufficient to this task, they think they cannot tackle the issue. As one interviewee said, “What would it take to fully capitalize arts organizations in a given community? That is too scary a conversation.”

The message that all funders, regardless of their focus or budget size, can contribute to furthering good capitalization practices has not fully penetrated the field, although

many workshop attendees reported that they do understand this. The misconception that “capitalization is not for us” seems particularly strong among public funders and funding intermediaries. One public funder told us that incorporating capitalization principles into their grantmaking is “not possible in municipal funding” because “we can only fund public-benefit activities.” Intermediaries and public funders often feel that their grants are too small to make a difference. Yet these entities often have closer relationships with grantees, and tend to work with younger, smaller, and more culturally diverse organizations than do many private foundations. This puts them in an important role to educate nonprofit leaders about good capitalization practices. Concepts such as providing flexible support and not penalizing surpluses can be adopted by both public agencies and regrating programs.

Many program officers lack the financial expertise needed to adequately evaluate cultural organizations’ finances and determine the appropriate ways to intervene when necessary. One interviewee noted that she needs to advance her own knowledge before she can help others: “I haven’t had the formal training to understand detailed balance sheets and to read in between the lines. I need to get up to speed before I can share this learning with grantees.” Fully understanding an organization’s financial picture and working with them on improving it takes time, and is a more intensive relationship than many funders are used to having with organizations. Program officers who are already stretched to their capacity are finding it hard to take on this additional work, despite recognizing its value. One said, “Writing the check, that’s the easy part. The hard part is finding the time to deepen our relationships with our grantees in the way that is necessary to further this work.” In addition, not all funders understand that every grant they make influences the organization’s financial health. Some view capitalization as something outside their interest or purview. One funder put it bluntly, “Our mission is project-focused and that is unlikely to change soon.”

3. Cultural organizations

Funders interviewed for this study generally feel that while most arts organizations appreciate flexible funding and understand the value of cash reserves, the majority have not yet internalized capitalization principles beyond that.¹² There are significant exceptions in every locality, however, and over half of survey respondents (56 percent) feel that interest in capitalization is growing among nonprofit organizations in their community. The shift to good capitalization practice involves all dimensions of an organization and requires re-education of board members as well as artistic and management staff. One funder now requires grantees to bring artistic and management staff as well as board leadership to conversations about funding, after watching organizations’ carefully built surpluses repeatedly viewed as “extra” money and spent

¹² Basic capitalization principles include: having the cash to execute strategy over a sustained period of time; understanding the difference between revenue and capital; understanding how investments in change differ from regular business costs; and having liquidity, adaptability and durability of finances. For more see: *Critical Steps toward Capital Health in the Cultural Sector*, http://nonprofitfinancefund.org/files/captips_052114.pdf.

without plans for replacement. Another funder commented that board members “wouldn’t run their own businesses like they run the nonprofit organizations they sit on the boards of.” Funders can encourage cultural organization staff to have conversations about good capitalization practice with their boards.

The language of capitalization may be part of the problem. Many funders mentioned that “capitalization,” “change capital,” “risk reserves,” and other such terms seem like jargon and can be off-putting. One grantmaker said, “Arts groups think capitalization is the latest funder fad,” and worry that they will have to learn to jump through new hoops or that it will result in funders supporting fewer organizations.

What will continue to propel change

Funders were clear about what is needed to continue to propel the field — both nonprofits and funders — toward stronger capitalization practice.

* **Good data and information** – The NFF’s diagnostic tools and capitalization reports,¹³ GIA *Reader* articles, the GIA workshop slides, articles by Clara Miller, and TDC’s 2010 Capitalization Summary report have helped funders understand capitalization themselves and communicate about it to others. A number of funders referred to these as “active documents,” meaning that they have practical value for them on a daily basis. Funders in areas where CDP data is available noted that this is becoming a useful tool. Both interviewees and survey respondents reported that they would like more information about successful capitalization strategies used by organizations and other grantmakers.

* **Workshops and training for funders** – Funders acknowledge that they need additional help with reading financial statements, analyzing business plans, and understanding the nuances of different kinds of capital and sustainable business models. Continuing conversations among funders, particularly funders working in the same locale, is essential, and funders expressed a desire for guidelines and materials to help foster this work. Funders want assistance in how to talk with applicants and grantees about long-term financial planning rather than specific projects. Funders also requested training specifically designed to meet the needs of foundation boards, who must be educated about good capitalization principles in order to support changes in policy and practice, but are unlikely to attend a lengthy workshop. Close to 20 percent of survey respondents indicated they plan to start having conversations with grantees about overall financial strategy and close to 25 percent indicate they plan to have such conversations with their boards. There is an opportunity for GIA, and local funders’ affinity groups, to create interfunder mentoring – linking funders who have figured out

¹³ Including *The Case for Change Capital in the Arts*, http://nonprofitfinancefund.org/files/docs/caseforcapitalfinal_050611_spread.pdf; *Change Capital in Action: Lessons for Leading Arts Organizations*, http://nonprofitfinancefund.org/files/ccinaction_final.pdf; and *Critical Steps toward Capital Health in the Cultural Sector*, http://nonprofitfinancefund.org/files/captips_052114.pdf.

how to talk about capitalization with cultural groups and their own boards with funders who want to do this but need guidance on how to proceed successfully.

*** Educating others in the nonprofits arts field** – Improving the capitalization of nonprofit arts organizations requires action by organizations in all parts of the arts sector. Numerous funders said that the next step in this work is to bring more nonprofit organizations into the conversation, including artistic and management staff as well as board members, consultants, and others who work with cultural groups. Service organizations, intermediaries and consultants have an important role to play in shifting the way that organizations think about their finances. Service organizations, in particular, are key partners in spreading good practice nationally. They can raise awareness about capitalization principles through their publications, workshops, conferences and other resources, and can support nonprofits in their efforts. Theater Communications Group and Dance/USA have initiated such efforts. However, a number of funding intermediaries who answered the survey seemed unsure about their role in capitalization. Educating these groups about the critical role they can play in this equation is a necessary step. Also, ensuring that arts consultants are knowledgeable about capitalization fundamentals would reinforce funders' work in this realm. And accountants and auditors need to be educated about good capitalization strategies — such as separating revenue from capital — and how they should be reflected in budgets and reports.

*** Better terminology** – Many funders and cultural groups find the current language of capitalization – terms like “capitalization,” “change capital,” and “risk reserves” – to be a barrier to understanding and therefore to change. We heard from several interviewees that they prefer phrases such as “business model development,” “controlling your own destiny,” and “resources needed to achieve your mission over time.” Using clearer, jargon-free language can help organizations see how embracing good capitalization is in their own best interest and reduce the fear that this is just another funder-generated mandate.

*** Consideration of equity** — It is critical that funders' investments in capitalization do not exacerbate the historical inequities in resource distribution in the nonprofit arts field. The capitalization conversation – nationally and locally – is an opportunity to reevaluate the financing of individual organizations as well as entire areas of the sector, such as community-based or culturally specific arts organizations. Additional effort needs to be made to link the discussions of arts organizations' financial health with the conversations around cultural equity and the increasing diversity in aesthetic and institutional forms we see across the country.

Conclusion

The NCP workshops offered by GIA in concert with NFF and TDC responded to growing concern by funders about the financial health of cultural organizations. They created a context for local conversations about ways to address this issue and the role that

funders play in promoting that health. They enhanced funders' knowledge of effective cultural organization practices and offered concrete examples of ways to improve their own funding practices as well. As a result, many funders have begun to take specific steps in their own communities, including – in some places – initiating new funding programs focused specifically on capitalization.

Funders know that this work is not complete. As one funder noted, “We have 30 years of bad practice to undo... this will not happen overnight.” But this study confirms that significant number of funders believe that meaningful inroads have been made as a result of GIA's sustained effort, in concert with with the actions of dozens of its funding partners. Many funders urged GIA to sustain the work. “Keep the pressure on,” said one. “This change will take time but GIA is making a difference.”

This paper was written by Alexis Frasz and Holly Sidford, members of Helicon Collaborative – a research and consulting company that partners with artists, cultural organizations, foundations and other creative enterprises to make communities better places for all people – more vital, adaptive and just.

Appendix A: Workshop sites and local funding partners 2012-2013

Atlanta, GA

The Arthur M. Blank Family Foundation

John H. and Wilhelmina D. Harland Charitable Foundation

Metropolitan Atlanta Arts Fund of the Community Foundation for Greater Atlanta

The Sara Giles Moore Foundation

The Tull Charitable Foundation

The Zeist Foundation

Boston, MA

The Barr Foundation

The Boston Foundation

The Klarman Family Foundation

The Carl and Ruth Shapiro Foundation

Chicago, IL

Gaylord and Dorothy Donnelley Foundation

The Richard H. Driehaus Foundation

The Irving Harris Foundation

Polk Bros. Foundation

Houston, TX

Houston Endowment

Los Angeles, CA

California Community Foundation

Michigan

Ann Arbor Area Community Foundation

Irving S. Gilmore Foundation

The Kresge Foundation

Masco Corporation Foundation

Minneapolis, MN

The McKnight Foundation

New York, NY

The Rockefeller Foundation

Philadelphia, PA

William Penn Foundation

Pittsburgh, PA

The Heinz Endowments

Portland, OR

James F. and Marion L. Miller Foundation

Paul G. Allen Family Foundation

San Francisco Bay Area (Oakland and Menlo Park)

The William and Flora Hewlett Foundation

Seattle, WA

Paul G. Allen Family Foundation

Appendix B: Interviews

Kerry Adams-Hapner, Director, San Jose Office of Cultural Affairs

Kate Barr, Executive Director, Nonprofits Assistance Fund

Vickie Benson, Program Director, The McKnight Foundation

Douglas Bohr, Director of the Philadelphia Program, Pew Charitable Trusts

Janet Brown, President and CEO, Grantmakers in the Arts

Caitlin Brune, Program Officer, AdminiTrust, LLC/The May & Stanley Smith Charitable Trust

Michelle Coffey, Executive Director, Lambent Foundation

Lisa Cremin, Director, Metropolitan Atlanta Arts Fund

Sharon deMark, Program Officer, Minnesota Philanthropy Partners

Marcia Festen, Program Consultant, Lloyd A. Fry Foundation

Abigail Guay, Grantmakers in the Arts

Cheryl Ikemiya, Doris Duke Charitable Foundation

Jim Kelly, Executive Director, 4Culture

Lisa Kuzma, Senior Program Officer, Richard King Mellon Foundation

Ruby Lerner, Executive Director, Creative Capital

Jim McDonald, Senior Program Officer, Paul G. Allen Family Foundation

John McGuirk, Program Director, The William and Flora Hewlett Foundation

Debbie McNulty, Grant Officer, Houston Endowment

Mark Melcher, Trustee, The Anchorage Foundation of Houston

Olive Mosier, Director of Arts Funding, William Penn Foundation

John Nesholm, President, Nesholm Family Foundation

Karen Park, Arts Program Manager, San Jose Office of Cultural Affairs

Claire Peeps, Executive Director, Durfee Foundation

Janice Pober, Senior Vice President for Corporate Social Responsibility, Sony Pictures Entertainment

Angelique Power, Senior Program Officer, The Joyce Foundation

Jodie Fishman Raines, Vice President of Programs, Fred A. and Barbara M. Erb Family Foundation

Martha Richards, Executive Director, James F. and Marion L. Miller Foundation
Janet Sarbaugh, Senior Program Director, The Heinz Endowments
Laura Sherman, Senior Program Officer, Klarman Family Foundation
Regina Smith, Senior Program Officer, The Kresge Foundation
Audrey Struve, Program Manager, Silicon Valley Creates
Javier Torres, Senior Program Officer, The Boston Foundation
Lisa Williams, Executive Director, The Sara Giles Moore Foundation
Audrey Wong, Grants Manager, Silicon Valley Creates
San San Wong, Senior Program Officer, Barr Foundation

Appendix C: Profiles

Boston

The **Barr Foundation** and **Klarman Family Foundation** are collaborating on the Barr-Klarman Arts Capacity Building Initiative.¹⁴ Sixteen mid-sized cultural organizations – including the American Repertory Theater, the Institute of Contemporary Art, the Jose Mateo Ballet, and the Museum of African American History – are receiving multi-year operating support up to \$250,000 and technical assistance over three to five years. This support is building organizations’ capacity, and enabling them to reach and remain relevant to Boston’s increasingly diverse communities and audiences. As part of the program, TDC has provided in-depth financial analysis for participating groups, including discussions of capitalization principles with board members, as well as workshops and support to strengthen their operations and balance sheets. Says Laura Sherman of the Klarman Family Foundation, “We’re seeing some organizations really change their approach to budgets – thinking about organizational health, not just programs. As a result of this program, other groups are not taking on building projects that might harm them financially. All of them are really building finance skills on their boards, among other changes. It’s very gratifying.”

Portland

A consortium of funders in Portland, Oregon is working together to stabilize the city’s five largest cultural institutions. Martha Richards, Executive Director of the James and Marion Miller Foundation, says, “We were concerned about the persistent deficits and the episodic crises. We told the groups, ‘if you want more money from us, you have to – at a minimum – balance your operating budget and reduce the debts which are restricting your artistic and financial flexibility’.” Part of the goal of the initiative is to provide funders with the same information and enable them to coordinate their interactions with the arts groups. In 2009, the consortium hired a consultant to generate a detailed analysis of each organization’s financial situation. Groups then prepared business plans describing how they would achieve surplus budgets and build working capital. Funding is tailored to the specific organization’s needs and size. The program has required changes in behaviors for both the funders and the organizations.

¹⁴ barrfoundation.org/strategies/arts-culture/

Five years in, all the groups have balanced or surplus operational budgets and are making progress toward retiring debt. “The groups continue to face occasional setbacks, and there’s much more to do,” says Richards. “Adequate capitalization is still a ways off, but now we can discuss financial strategy not just bank balances, and this is a very significant shift.”

Twin Cities

The GIA workshop in November 2012 piqued the interest of arts grantmakers in the Twin Cities for learning more, and the Minnesota Council on Foundations decided to host a follow-up workshop with 55 funders and arts organizations. This workshop was facilitated by Nonprofits Assistance Fund, a regional service organization with deep expertise in nonprofit finances. The workshop participants were coached through hands-on analyses of sample arts organizations’ budgets and balance sheets. Subsequently, several funders have asked NAF to provide additional training for their staff members. These sessions provide deeper skill-building on financial analysis and review approaches to talking with colleagues and board members about the benefits of financial health and capitalization. Funders in other fields are also attending these workshops, so arts funders can exchange ideas with colleagues in other sectors. “The capitalization principles apply across the nonprofit sector,” says Kate Barr of NAF. “And change in funder policy and practice will come faster if program officers in multiple fields are advocating for it.”

Facilities Support

Facilities can be a particularly challenging element of nonprofit capitalization. Clara Miller, NFF’s previous CEO and capitalization maven, calls real estate “one of the four horsemen of the nonprofit financial apocalypse.”¹⁵ Several arts funders are employing creative strategies to help cultural organizations gain control over their real estate destiny:

- Some years ago, a small organization in Pittsburgh was suffering under \$2 million of accumulated, building-related debt. The Heinz Endowments purchased its debt and became a mortgage holder on its building. In exchange, the organization agreed not to assume any new debt for five years, which forced the group to change its way of thinking and operating.
- A dance group in Houston wanted to move into a new facility, but was unable to aggregate a sufficient cash reserve for this purpose despite having solid cash flow. The Houston Endowment put them in touch with the Local Initiatives Support Corporation, a community development finance organization. LISC helped the company put its financial package together in a way that a lender could understand, which enabled it to get a loan and move into a new facility.
- San Francisco is one of the most expensive real estate markets in the country, and the most recent boom has left many nonprofit cultural organizations

¹⁵ Miller, Clara. *The Four Horsemen of the Nonprofit Financial Apocalypse*. The Nonprofit Quarterly. 2010. http://nonprofitfinancefund.org/files/4_horsemen.pdf

struggling to stay in the city as rents increase alarmingly. The Kenneth Rainin Foundation has partnered with the Northern California Community Loan Fund and the San Francisco Office of Economic and Workforce Development to launch the Community Arts Stabilization Trust (CAST). CAST seeks to bring public and private partners together to purchase permanent facilities and stabilize rents for nonprofit arts organizations in a rapidly changing real estate environment. Part of this effort is working with nonprofit cultural organizations to build their financial skills and capacity so they can manage facilities over the long-term.

Appendix D: Capitalization Survey Analysis

Methodological Notes:

This survey was designed by GIA and Helicon. GIA emailed the survey to 839 funders on March 25, 2014, and recipients had two weeks to complete it. The email list included the entire GIA membership as well as all funders who attended GIA's capitalization workshops in 14 different locations, some of whom are GIA members and some of whom are not. The survey received 107 total responses, 50 respondents had attended a capitalization workshop ("attendees") and 57 respondents did not attend a capitalization workshop ("non-attendees"). The response rate was 20 percent for workshop attendees and 10 percent for GIA members who did not attend a workshop.

Because of the relatively small number of respondents, our ability to compare attendees and non-attendees is limited. In most cases the differences between the two groups are negligible in numbers, even when the percentage seems significant. For example, 62 percent (n=32) of non-attendees and 78 percent (n=35) of attendees provide operating support. This appears to be a big difference by percentage, but it really is only a matter of a few funders (which could, theoretically, even be from the same funding organization). For this reason we present the majority of the data in aggregate, with a few exceptions where the difference between the two groups are large enough to be significant.

Survey respondents seem to differ from the general population of grantmakers in some important ways. For example, survey respondents are much more likely to give general operating support than the general population of arts grantmakers (70 percent vs. 32 percent). This suggests that survey respondents cannot be considered representative of the general population of arts grantmakers. It is likely that there is a self-selection bias in the survey because the people most likely to complete a survey on capitalization are those who have some interest in and knowledge about the issue.

Question 1: Are you a member of GIA?

- One-third of workshop attendees were not members of GIA (GIA invited participants based on geographical location rather than GIA affiliation).

- Almost all of non-attendees were members of GIA (this is logical, since GIA sent the survey to its members).

Q2: Please identify the type of funding institution you represent:

- Attendees were more likely to be from community foundations (21 percent workshop attendees vs. 2 percent non-attendees).
- Non-attendees were more likely to from local arts agencies (25 percent vs. 2 percent).
- It is unclear whether this difference reflects a difference between the institutional composition of the GIA membership and the cohort of workshop attendees.

Q3: Please identify your role in your funding institution:

- Attendees were twice as likely as non-attendees to be program officers (31 percent vs. 12 percent).
- Non-attendees were more likely to be executive directors than attendees (40 percent vs. 29 percent).

Q4: Does your funding institution exclusively fund the arts?

- Only one-third of attendees are funders at institutions that exclusively fund the arts, while over half of non-attendees work at institutions that exclusively fund the arts.

Q5: In what geographic area do you fund the arts? (Please select the largest area that you fund.)

- About 40 percent of both attendees and non-attendees fund exclusively in their local area.
- Non-attendees are twice as likely as attendees to fund nationally (28 percent vs. 14 percent).

Q6: Which of the following GIA resources related to capitalization have you taken advantage of? (Please select all that apply.)

- Attendees were more likely than non-attendees to have read the National Capitalization Project 2010 Summary (80 percent vs. 59 percent), which was preparatory material for the workshop.
- Over three-quarters of all respondents (78 percent) read an article about capitalization in the *GIA Reader*.
- Over half of all respondents (58 percent) attended a GIA conference session on capitalization.
- One-quarter (25 percent) of all respondents attended a GIA web conference on capitalization.

- Only one in ten respondents had not taken advantage of any of the listed resources on capitalization, suggesting that whether or not they attended the workshops, respondents are interested in and aware of capitalization as an issue.

Q7: Please select the option that best describes the influence GIA's resources have had on your understanding of the following elements of capitalization for nonprofit arts organizations:

- The different types of capital required by organizations based on their circumstances:
 - About three-quarters of respondents felt that they understood this before GIA, but half felt that GIA helped them understand it better.
 - 18 percent of respondents did not understand this before interacting with GIA resources and now feel that they understand it better.
- The difference between regular revenue (money for current operations and programs) and capital (funds that accumulate over time and appear on the balance sheet).
 - All survey respondents say that they understand this principle of capitalization. Nine in ten understood it before GIA, while 10 percent said that they did not understand before interacting with GIA.
 - For those who did understand this before GIA's efforts, many felt that GIA's resources were helpful to their understanding it better. This is particularly true for workshop attendees, who were twice as likely as non-attendees to say that GIA helped them understand this principle better even though they already had some understanding of it (63 percent vs. 31 percent).
- The importance of working capital (liquidity) for all organizations, and the necessity of building it through savings
 - All survey respondents said that they understand this principle. While 100 percent of attendees say that they understood this before interacting with GIA, 15 percent of non-attendees credit GIA capitalization's work with helping them understand this.
 - Over half of all respondents who did understand this before GIA say that GIA helped advance their thinking (57 percent).
- How funder behavior can negatively impact organization's finances and stability
 - Eighty-seven percent of funders said they already understood this before GIA's programs, but over half said that GIA helped advance their thinking.
 - Almost all funders who did not understand this before GIA's work say they do now as a result of GIA's programs.
- The importance of funding general operating costs – separate from or in addition to support for programs
 - Almost all (97 percent) of respondents said they already understood this before GIA's efforts, but 44 percent said that GIA helped their thinking.
- How to determine liquid net assets from a balance sheet

- Funders understood this element of capitalization least well, with a third saying they did not understand before participating in GIA programs. While almost all of those who attended the workshop now feel like they understand this better, 25 percent of those who did not attend the workshop still do not understand how to do this. This suggests that the workshop was particularly useful in helping funders develop this tangible skill.

Q8: Please indicate whether you do any of the following as a result of what you have learned from GIA’s resources on capitalization?

	Yes	No
Encourage grantees to get assistance with their business model and financial planning	82%	18%
Provide overhead and salary money within project grants to support operating costs	81%	19%
Look closely at organizations’ plans to see that program, operations and financing are linked	79%	21%
Encourage surpluses	76%	24%
Include questions about financial health and business models on our applications	74%	26%
Have an in-depth dialogue with grantees about their overall financial strategy	68%	32%
Loosen restrictions on how grantees can use the money we provide	65%	35%
Have candid discussion with grantees about their real overhead and salary costs for projects	65%	35%
Change the type of funding we provide to better meet organizations’ financial needs	52%	48%
Have conversations about capitalization principles with my own board of trustees or directors	51%	49%
Sponsor workshops and other training on capitalization for our applicants or grantees	41%	59%

- The majority of funders who do these things did them even before GIA’s National Capitalization Program, although GIA did stimulate at least a few funders to start doing each one of these things. GIA was particularly influential in prompting new conversations with boards and grantees.
 - 25 percent of funders started having conversations with their boards about capitalization as a result of GIA’s work.
 - 17 percent started having candid discussions with grantees about real overhead and salary costs as a result of GIA’s work.
- Of the funders who do not currently do these things, some plan to do so in the future. Most notably:
 - 17 percent plan to start having conversations with the grantees about overall financial strategy and 19 percent plan to talk with grantees about their real overhead and salary costs for projects.
 - 23 percent plan to start having capitalization conversations with their boards.
 - 22 percent plan to change the type of funding they provide to better meet grantees needs.
- More than a quarter of funders surveyed do not and have no plans to do several things:
 - Having conversations with their boards.
 - Changing the type of funding they provide.
 - Loosening restrictions on how grantees can use money.
 - Sponsoring workshops and trainings for grantees.

Q9: Have GIA's programs (including workshops, conferences and materials) on capitalization changed the kind of financial support you provide to grantees? Please indicate the kind of support you provide:

Kinds of support provided

Project support	87%
General operating support	70%
Funding for financial review and planning	55%
Facilities funding	47%
Change capital	35%
Working capital	33%
Loans	22%
Debt reduction / recovery capital	18%
Endowment building	15%

- Most funders have not changed the type of support that they provide as a result of participating in GIA’s programs.
- Most funders who do not provide a certain type of funding support do not have plans to. However, one in five (21 percent) do plan to provide working capital and/or change capital in the future. Workshop attendees are more than twice as likely to consider providing change capital than non-attendees (29 percent vs. 13 percent).

Q10: Do you confer/collaborate with other funders on any initiatives related to capitalization?

Regular meetings with arts funders	68%
Joint funding of training or technical assistance for nonprofits	54%
Joint research initiatives	45%
Joint funding for capitalization efforts by nonprofits	22%

Q11: Is there any further action you have taken to support capitalization principles with your grantees? (open-ended question, narrative responses summarized below)

- Have changed funding provided to explicitly support capacity building, capitalization and financial planning, risk funds
- Hosting additional capitalization trainings (led by NFF or others) for funders, grantees and non-grantees, and organization boards of directors
- Including overhead costs in project grants
- Having discussions with organizations to understand the story behind the numbers, whether deficits or surpluses
- Automatically awarding supplementary grants for working capital reserves if primary grant is approved
- Providing assistance with cultivating donors
- Providing a competitive fund for specialized technical assistance related to capitalization and risk capital
- Releasing endowment restrictions of previous grants
- Making capitalization a topic of conversation with grantees

Q12: Have you experienced barriers in your efforts to implement practices that support good capitalization?

- Over half of respondents (56 percent) said “yes” to this question.

Q13: What barriers have you encountered? (Please select all that apply.)

- Of those that have experienced barriers, lack of board understanding was the most common barrier reported with two-thirds saying that they have struggled with this.
- Forty-four percent of those who have experienced barriers have struggled with lack of knowledge and support by staff and / or cultural organization.

Q14: Please indicate how helpful the following have been in advancing your understanding of financial health principles for nonprofit arts organizations? (Rank from very useful to not at all useful.)

- Reading GIA, NFF, or TDC capitalization publications was useful for all who did it, and only a few respondents had not done this. 59 percent of respondents said these materials were “very useful”.
- Most people who attended GIA conferences found them useful for advancing funder knowledge of financial health principles, but one in four respondents had not attended.
- Seven in ten who attended the local workshops found that GIA workshops were “very useful” to their understanding of capitalization, while only a third of respondents who had not attended these workshops found GIA capitalization material very useful.
- Those who had not attended GIA’s local workshops were more likely to say that talking with their peers was very useful (70 percent vs. 62 percent), but this was one of the most useful things for both groups.

Q15: Is interest in capitalization rising among nonprofit organizations in your community?

	Non-Attendees	Attendees
Yes	46%	67%
No	11%	4%
Not sure	44%	29%

- Workshop attendees are much more likely to say interest in capitalization is rising among nonprofit organizations in their community. Non-attendees are much more likely to say that they do not know.

Q16: Is interest in capitalization rising among funders in your community?

	Non-Attendees	Attendees
Yes	34%	67%
No	11%	4%
Not Sure	55%	29%

- Workshop attendees are twice as likely to say interest in capitalization is rising among funders in their community, while non-attendees are twice as likely to say that it is not or be unsure.

Q17: On a scale of 1-7, how much of a priority is supporting good financial health practices among nonprofits for your funding organization?

- Overall, funders say that supporting good financial health practices is a high priority for them (average score 5.9). There are no significant differences by whether or not they attended the local workshop.

Q18: On a scale of 1-7, how much of a priority do you think supporting good financial health practices for nonprofit organizations is for other funders in your community?

- Overall, funders say that supporting good financial health practices is a high priority for other funders in their community (average score 5.3). There are no significant differences by whether or not they attended the local workshop.

Q19: What would help you implement capitalization principles into your grantmaking?
(open-ended question, narrative responses summarized below)

- There seems to be a feeling among some municipal funders that they are not in a position to support capitalization because their funding is too small or because they must supply public value for their tax-based funds.
- Some funders still believe that they cannot influence capitalization because they do not have sufficient funds to make a difference.
- Funders desire more information, research and case studies of effective practice in capitalization and the impact on organizations.
- Simple tools and strategies to educate foundation board members to increase board buy-in.
- Simple ideas for getting started, including practices used by funders who do not see this as their primary mission.
- Education of grant evaluators.

Q20: Are there any additional comments that you would like to offer?

- Several people mentioned the need to include equity in the discussions about capitalization – how capitalization relates to funding for organizations in historically underserved communities.
- A desire to correct the misunderstanding among funders that capitalization is only for large organizations, so that smaller and community based organizations will be supported for stronger capitalization as well.