



## Frequently Asked Questions

### 1. HOW IS THE ECONOMIC IMPACT OF ARTS AND CULTURE ORGANIZATIONS DIFFERENT FROM OTHER INDUSTRIES?

Any time money changes hands; there is a measurable economic impact. Social service organizations, libraries, and all entities that spend money have an economic impact. What makes the economic impact of arts and culture organizations unique is that, unlike most other industries, they induce large amounts of event-related spending by their audiences. For example, when patrons attend a performing arts event, they may purchase dinner at a restaurant, eat dessert after the show, and return home and pay the babysitter. All of these expenditures have a positive and measurable impact on the economy.

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### 2. WILL MY LOCAL LEGISLATORS BELIEVE THESE RESULTS?

YES, THIS STUDY MAKES A STRONG ARGUMENT TO LEGISLATORS, BUT YOU MAY NEED TO PROVIDE THEM WITH SOME EXTRA HELP. IT WILL BE UP TO THE USER OF THIS REPORT TO EDUCATE THE PUBLIC ABOUT ECONOMIC IMPACT STUDIES IN GENERAL AND THE RESULTS OF THIS STUDY IN PARTICULAR. THE USER MAY NEED TO EXPLAIN:

- (1) THE STUDY METHODOLOGY USED;
- (2) THAT ECONOMISTS CREATED AN INPUT-OUTPUT MODEL FOR EACH COMMUNITY AND REGION IN THE STUDY; AND
- (3) THE DIFFERENCE BETWEEN INPUT-OUTPUT ANALYSIS AND A MULTIPLIER ([SEE QUESTION 9](#)).

THE GOOD NEWS IS THAT AS THE NUMBER OF ECONOMIC IMPACT STUDIES COMPLETED BY ARTS ORGANIZATIONS AND OTHER SPECIAL INTEREST AREAS INCREASES, SO DOES THE SOPHISTICATION OF COMMUNITY LEADERS WHOSE INFLUENCE THESE STUDIES ARE MEANT TO AFFECT. TODAY, MOST DECISION-MAKERS WANT TO KNOW WHAT METHODOLOGY IS BEING USED AND HOW AND WHERE DATA WAS GATHERED. YOU CAN BE CONFIDENT THAT THE INPUT-OUTPUT ANALYSIS USED IN THIS STUDY IS A HIGHLY REGARDED MODEL IN THE FIELD OF ECONOMICS (THE BASIS OF TWO NOBEL PRIZES IN ECONOMICS). HOWEVER, AS IN ANY PROFESSIONAL FIELD, THERE IS DISAGREEMENT ABOUT PROCEDURES, JARGON, AND THE BEST WAY TO DETERMINE RESULTS. ASK 12 ARTISTS TO DEFINE ART AND YOU WILL GET 12 ANSWERS; EXPECT THE SAME OF ECONOMISTS. YOU MAY MEET AN ECONOMIST WHO BELIEVES THAT THESE STUDIES SHOULD BE DONE DIFFERENTLY (FOR EXAMPLE, A COST-BENEFIT ANALYSIS OF THE ARTS).

### 3. HOW CAN A COMMUNITY NOT PARTICIPATING IN THE ARTS & ECONOMIC PROSPERITY IV STUDY APPLY THESE RESULTS?

BECAUSE OF THE VARIETY OF COMMUNITIES STUDIED AND THE RIGOR WITH WHICH THE ARTS & ECONOMIC PROSPERITY IV STUDY WAS CONDUCTED, NONPROFIT ARTS AND CULTURE ORGANIZATIONS LOCATED IN COMMUNITIES THAT WERE NOT PART OF THE STUDY CAN ESTIMATE THEIR LOCAL ECONOMIC IMPACT.

*ESTIMATES CAN BE DERIVED BY USING THE [ARTS & ECONOMIC PROSPERITY IV CALCULATOR](#).*

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### 4. HOW WERE THE 182 PARTICIPATING COMMUNITIES AND REGIONS SELECTED?

In 2010, Americans for the Arts published a call for participants for communities interested in participating in the Arts & Economic Prosperity IV study. Of the more than 200 participants that expressed interest, 182 agreed to participate and complete four participation criteria.

*To learn more about our study partners and download a complete list of study regions, visit the [Local Findings page](#).*

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### 5. HOW WERE THE ELIGIBLE NONPROFIT ARTS ORGANIZATIONS IN EACH COMMUNITY SELECTED?

Each of the 182 study regions identified the comprehensive universe of eligible nonprofit arts and culture organizations located in their regions. Eligibility was determined using the Urban Institute's National Taxonomy of Exempt Entities (NTEE) coding system as guideline. Communities were encouraged to include other types of eligible organizations if they play a substantial role in the cultural life of the community or if their primary purpose is to promote participation in, appreciation for, and understanding of the visual, performing, folk, and media arts. These include government owned or -operated cultural facilities and institutions, municipal arts agencies and councils, private community arts organizations, unincorporated arts groups, living collections (such as zoos and botanical gardens), university presenters, and arts programs that are embedded under the umbrella of a non-arts organization or facility. For-profit businesses were strictly excluded from this study. In short, if it displays the characteristics of a nonprofit arts and culture organization, it was included.

## 6. WHAT TYPE OF ECONOMIC ANALYSIS WAS DONE TO DETERMINE THE STUDY RESULTS?

An input-output analysis model was customized for each of the participating communities and regions to determine the local economic impact their nonprofit arts and culture organization and arts audiences. Americans for the Arts, which conducted the research, worked with a highly regarded economist from the Georgia Institute of Technology to design and customize the input-output models used in this study.

*To learn more about the methodology of this study, download our [Detailed Study Methodology Guide](#) [PDF, 252KB].*

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## 7. WHAT OTHER INFORMATION WAS COLLECTED IN ADDITION TO THE ARTS SURVEYS?

In addition to detailed expenditure data provided by the participating eligible organizations, extensive wage, labor, tax, and commerce data were collected from local, state, and federal governments for use in the input-output model.

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## 8. WHY ARE ADMISSION/TICKET EXPENSES EXCLUDED FROM THE ANALYSIS OF AUDIENCE SPENDING?

Researchers make the assumption that any admission fees paid by attendees are typically collected as revenue by the organization that is presenting the event. The organizations then spend those dollars. Thus, the ticket fees are captured in the operating budgets of the eligible nonprofit arts and culture organizations that participate in the organizational data collection effort. Therefore, the admissions paid by audiences are excluded from the audience spending analysis in order to avoid “double-counting” those dollars in the overall analysis.

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## 9. WHY DOESN'T THIS STUDY USE A MULTIPLIER?

When many people hear about an economic impact study, they expect the result to be quantified in what is often called a multiplier or an economic activity multiplier. The economic activity multiplier is an estimate of the number of times a dollar changes hands within the community (e.g., a theater pays its actor, the actor spends money at the grocery store, and the grocery store pays the cashier, and so on). It is quantified as one number by which expenditures are multiplied. The convenience of the multiplier is that it is one simple number. Users rarely note, however, that the multipliers developed by making gross estimates of the industries within the local economy and does not allow for differences in the characteristics of those industries. Using an economic activity multiplier usually results in an overestimation of the economic impact and therefore lacks reliability.

**10. IF EXPENDITURE DATA WERE COLLECTED FROM BOTH GRANTMAKING ORGANIZATIONS AS WELL AS FROM THE ELIGIBLE NONPROFIT ARTS AND CULTURE ORGANIZATIONS THAT RECEIVED THOSE GRANTS WITHIN ANY OF THE PARTICIPATING STUDY REGIONS, WERE THOSE GRANT DOLLARS “DOUBLE-COUNTED” IN THE FINANCIAL ANALYSIS?**

No, grant dollars should not be double-counted in the analysis. The Organizational Expenditure Survey instructed the responding organizations to exclude any dollars that were awarded as grants or contracts to other nonprofit arts and culture organizations. Similarly, researchers removed from the economic impact analysis expenditures that were identified in Cultural Data Project profiles as grantmaking dollars.

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**11. HOW DOES THE ECONOMIC IMPACT OF THE NONPROFIT ARTS COMPARE WITH THE ECONOMIC IMPACT OF OTHER INDUSTRIES OR SECTORS (ESPECIALLY DURING THE GREAT RECESSION)?**

Like all other industries, the nonprofit arts and culture experienced significant economic headwinds during 2010. Between 2005 and 2010, unemployment rose from 5.1 percent to 9.7 percent. The Consumer Confidence Index fell from 101 to 54. Home foreclosures tripled to 2.9 million. Nationally, nonprofit arts and culture organizations demonstrated resiliency throughout The Great Recession. Some major institutions were forced to close their doors, but many new organizations were founded. As a result, pre-recession gains in aggregate organizational spending were lost in the recession, and as a result the industry experienced a modest decrease in aggregate spending by organizations. The most significant impact of the Great Recession was with regard to event-related spending by arts audiences. As consumer spending declined, arts audiences stayed closer to home and spent less. The average attendance to arts events declined modestly, as did tourism, leisure travel, and attendance to professional sports events.

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**12. WHY MEASURE ONLY THE NONPROFIT ARTS AND CULTURE?**

There are three key reasons that the Arts & Economic Prosperity series focuses solely on the nonprofit arts and culture sector.

(1) The findings dispel the myth that the nonprofit arts and culture sector is an economic “black hole” and provide proof that when people, corporations, foundations, and governments support the nonprofit arts, they are also supporting economic and community development;

(2) Because nonprofit arts associations are often the recipient of public funding, the availability of valid and accurate economic impact data about the sector is critical; and

(3) The information necessary to complete an economic impact study is more easily obtained from the nonprofit sector than from the for-profit sector since nonprofit sector data is treated as public information and available through IRS Form 990 filings.

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### **13. WHERE DID RESEARCHERS OBTAIN THE INFORMATION ABOUT FULL-TIME EQUIVALENT JOBS, RESIDENT HOUSEHOLD INCOME, AND LOCAL AND STATE GOVERNMENT REVENUES?**

The Arts & Economic Prosperity IV study's four economic impact findings (full-time equivalent jobs, resident household income, and local and state government revenues) are calculated by the input-output models that were customized by the project economists for the unique economies of each of the 182 participating study regions. The "inputs" are the financial information collected from the eligible nonprofit arts and culture organizations in each study region as well as the information collected from the audience-intercept surveys in each study region. The "outputs" are the four economic impact findings that are generated by the industry. The input-output models are based on a table of 533 finely detailed industries showing local sales and purchases. The local and state economy of each study region is researched so the table can be customized for each. The basic purchase patterns for local industries are derived from a similar table for the U.S. economy for 2007 (the latest detailed data available from the U.S. Department of Commerce). The table is first reduced to reflect the unique size and industry mix of the local economy, based on data from County Business Patterns and the Regional Economic Information System of the U.S. Department of Commerce. It is then adjusted so that only transactions with local businesses are recorded in the inter-industry part of the table. This technique compares supply and demand and estimates the additional imports or exports required to make total supply equal total demand. The resulting table shows the detailed sales and purchase patterns of the local industries. The 533-industry table is then aggregated to reflect the general activities of 32 industries plus local households, creating a total of 33 industries. To trace changes in the economy, each column is converted to show the direct requirements per dollar of gross output for each sector. This direct-requirements table represents the "recipe" for producing the output of each industry.

# Frequently Used Terms

## CULTURAL TOURISM

Travel directed toward experiencing the arts, heritage, and special character of a place.

## DIRECT ECONOMIC IMPACT

A measure of the economic effect of the initial expenditure within a community. For example, when the symphony pays its players, each musician's salary, the associated government taxes, and full-time equivalent employment status represent the direct economic impact.

## DIRECT EXPENDITURES

The first round of expenditures in the economic cycle. A paycheck from the symphony to the violin player and a ballet company's purchase of dance shoes are examples of direct expenditures.

## ECONOMETRICS

The process of using statistical methods and economic theory to develop a system of mathematical equations that measures the flow of dollars between local industries. The input-output model developed for this study is an example of an econometric model.

## ECONOMETRICIAN

An economist who designs, builds, and maintains econometric models.

## FULL-TIME EQUIVALENT (FTE) JOBS

A term that describes the total amount of labor employed. Economists measure FTE jobs—not the total number of employees—because it is a more accurate measure of total employment. It is a manager's discretion to hire one full-time employee, two half-time employees, four quarter-time employees, etc. Almost always, more people are affected than are reflected in the number of FTE jobs reported due to the abundance of part-time employment, especially in the nonprofit arts and culture industry.

## INDIRECT ECONOMIC IMPACT

Each time a dollar changes hands, there is a measurable economic impact. When people and businesses receive money, they re-spend much of that money locally. Indirect impact measures the effect of this re-spending on jobs, household income, and revenue to local and state government. It is often referred to as secondary spending or the dollars "rippling" through a community. When funds are eventually spent non-locally, they are considered to have "leaked out" of the community and therefore cease to have a local economic impact. Indirect impact includes the impact of all rounds of spending (except for the initial expenditure) until the dollars have completely "leaked out" of the local economy.

## **INPUT-OUTPUT ANALYSIS**

A system of mathematical equations that combines statistical methods and economic theory in an area of economic study called econometrics. Economists use this model (occasionally called an inter-industry model) to measure how many times a dollar is re-spent in, or “ripples” through, a community before it “leaks out” of the local economy by being spent non-locally (see Leakage below). The model is based on a matrix that tracks the dollar flow between 533 finely detailed industries in each community. It allows researchers to determine the economic impact of local spending by nonprofit arts and culture organizations on jobs, household income, and government revenue.

## **LEAKAGE**

The money that community members spend outside of the local economy. This non-local spending has no economic impact within the community. A ballet company purchasing shoes from a non-local manufacturer is an example of leakage. If the shoe company were local, the expenditure would remain within the community and create another round of spending by the shoe company.

## **MULTIPLIER** *(often called Economic Activity Multiplier)*

An estimate of the number of times that a dollar changes hands within the community before it leaks out of the community (for example, the theater pays the actor, the actor spends money at the grocery store, the grocery store pays its cashier, and so on). This estimate is quantified as one number by which all expenditures are multiplied. For example, if the arts are a \$10 million industry and a multiplier of three is used, then it is estimated that these arts organizations have a total economic impact of \$30 million. The convenience of a multiplier is that it is one simple number; its shortcoming, however, is its reliability. Users rarely note that the multiplier is developed by making gross estimates of the industries within the local economy with no allowance for differences in the characteristics of those industries, usually resulting in an overestimation of the economic impact. In contrast, the input-output model employed in *Arts & Economic Prosperity IV* is a type of economic analysis tailored specifically to each community and, as such, provides more reliable and specific economic impact results.

## **RESIDENT HOUSEHOLD INCOME** *(often called Personal Income)*

The salaries, wages, and entrepreneurial income residents earn and use to pay for food, mortgages, and other living expenses. It is important to note that resident household income is not just salary. When a business receives money, for example, the owner usually takes a percentage of the profit, resulting in income for the owner.

## **REVENUE TO LOCAL AND STATE GOVERNMENT**

Local and state government revenue is not derived exclusively from income, property, sales, and other taxes. It also includes license fees, utility fees, user fees, and filing fees. Local government revenue includes funds to city and county government, schools, and special districts.