
EXECUTIVE SUMMARY

Many nonprofit organizations, particularly those in the performing arts, need to manage the uneven cash-flow that results from the timing of production costs, ticket sales, and grant and government revenue.

In response to this clear need, the MacArthur Foundation created the Arts & Culture Loan Fund (originally called the Working Capital Fund) in 2009 for its arts and culture grantees receiving general operating support. The intent of the Arts & Culture Loan Fund was to address systemic financial issues among small- to mid-sized Chicago-based arts organizations. Specifically, its objectives were to:

- *Provide a financing mechanism for Chicago's arts organizations to meet short-term cash-flow needs;*
- *Improve financial awareness and management within these groups by deepening their understanding of cash-management tools and of their own organizations' budget cycles; and*
- *Help participating arts groups build their institutional credit histories to enable future independent relationships with commercial lenders.*

The loan fund program was designed with a structure intended to meet all of these objectives with three integrated components: (1) technical assistance and initial loan screening conducted by the technical assistance provider, Executive Service Corps (ESC), to pre-screen loan applicants and strengthen

their financial operations, thus reducing costs to the lenders; (2) a working capital loan program established at one or more local financial institutions, available for organizations to establish lines of credit to enable them to meet cash-flow needs; and (3) a foundation guarantee that would incentivize banks to participate, minimize their losses, and reduce the cost to the banks of providing loans.

The initial planning documents outlined a design and structure for the program, but as it was a new program operating in a rapidly shifting environment, changes were made over the course of the program's implementation based on new information, changing circumstances with the implementing organizations, and other lessons learned along the way. These changes resulted in implementation that was dynamic and, at points, departed from the original program design. Some adjustments were made based on the changing needs of the field, including an expansion of the total funds available (an additional \$500,000) and changing the eligibility requirements to include organizations with slightly larger annual budgets (up to \$5 million). Other changes were neither planned nor anticipated, including the closing of ShoreBank and its replacement with Urban Partnership Bank. Despite these changes and challenges, the basic short- and long-term objectives of the loan fund program remained the same: to increase the financial stability of small- to medium-sized arts organizations in Chicago.

Evaluation Framework

This evaluation was designed to understand the extent to which the program achieved its intended results. The following hierarchy of program objectives serves as the framework for the evaluation process and this report.

Program Goal

Strengthen the financial management of small- to mid-sized arts organizations by providing a financing mechanism to address short-term cash-flow needs, supporting the building of relationships with commercial lenders, and providing access to expert technical assistance.

Objective 1:	⋮	Objective 2:	⋮	Objective 3:
Enable participants to manage short-term cash flow	⋮	Enable participants to build relationships with commercial lenders	⋮	Provide participants with quality technical assistance

Evaluation Methodology

To understand how the program met these key objectives, the evaluation team analyzed responses from a basic survey administered to approximately 200 organizations that were eligible to participate in the program. Of the twenty-five organizations that participated in the program, nineteen (76%) responded to a more detailed version of the survey and twelve (48%) participated in interviews. An additional fifteen staff members from the participating banks, technical assistance provider team, and the MacArthur Foundation also participated in interviews with the evaluation team. Overall, a total of 107 individuals provided feedback about their involvement in the program as part of the evaluation.

Limitations of the Evaluation

It should be noted that this evaluation approach has inherent limitations. Most of the data gathered was self-reported. This limitation was compounded by the fact that the requested feedback was retrospective in nature and spanned a period of five years. Another challenge was the staff and leadership transitions at participating nonprofits, the technical assistance partner, and bank participants, as well as at the MacArthur Foundation, over the period being evaluated.

Need for the MacArthur Arts & Culture Loan Fund Program

In the fall of 2007, the John D. and Catherine T. MacArthur Foundation commissioned a study to assess the extent of arts organizations' challenges in managing cash flow, the impact on the organizations' ability to accomplish their work, and potential ways that the foundation could address cyclical cash-flow shortages experienced by small- and mid-sized arts organizations. The foundation also interviewed banks to learn about their challenges with underwriting loans to these organizations.

The resulting March 2008 report by Gillian Darlow, *Cash-flow in Arts Organizations*, documented the needs of Chicago's small- and mid-sized arts and cultural nonprofits that often battled "frequent financial stresses and cash-flow challenges." The report documented that a core element of these cash-flow challenges stemmed from the seasonal nature of arts organizations' business models, with cash shortfalls appearing at predictable points every year. It showed that, while each arts group managed cash shortfalls differently, all tended to draw upon the same set of options, many of which were not sustainable, including: (1) delaying payment of bills, and sometimes staff salaries and artist fees; (2) relying on credit cards, both institutional and personal; and (3) obtaining loans from board members. In the case of stronger groups with better financial management, additional options included launching new fundraising efforts and accessing lines of credit through banks.

Based on interviews conducted for the needs assessment, the report's author found that by 2008, economic conditions made these short-term loans more important and valuable to the Chicago-area arts and culture sector. Larger mid-sized groups (with operating budgets between \$1 million and \$3 million) were finding that existing lines of credit were being cancelled or non-renewed. This was not a result of default on the part of the borrowers,

"Cash-flow management is a structural issue for small- to mid-sized nonprofits in the performing arts."

– Participating Arts Organization

but because the banks' risk tolerance for smaller organizations changed due to the recession. This situation was exacerbated by the fact that large public funders, such as the Illinois Arts Council and Chicago Public Schools, were unable to make timely payments to arts groups due to cash shortages at the state and local levels. While the loan program was planned well before the financial crisis, the launch during the recession was timely for many arts and cultural organizations.

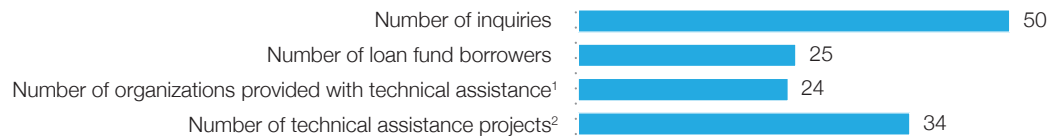
Loan Fund Borrower Statistics

Program timeline: 2009 to present

Eligible Organizations

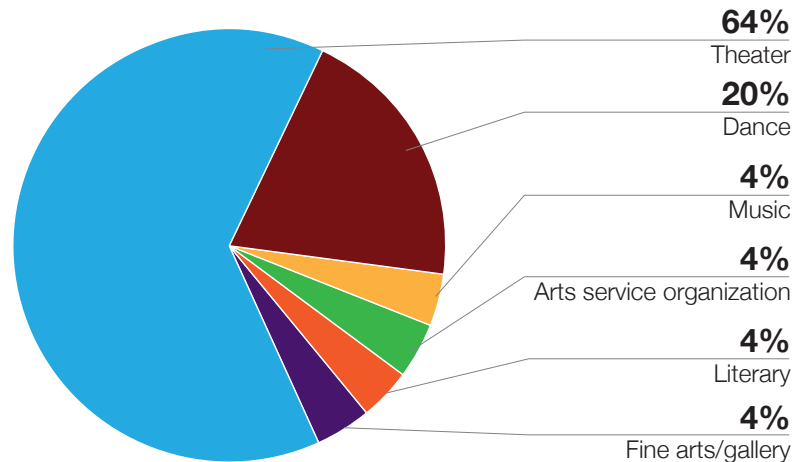
More than 200 small- to medium-sized arts organizations in Chicago with budgets from \$250,000 to \$5 million.

Loan Fund by the Numbers



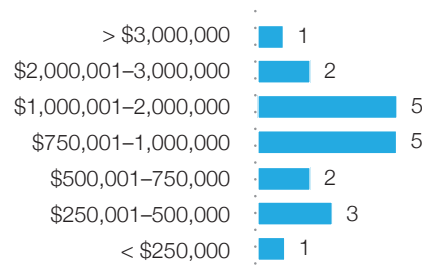
Loan Fund Borrowers by Type³

The majority of borrowers were theater organizations, followed by dance groups.



Loan Fund Borrowers by Budget Size

The majority of borrowers had budgets from \$500,000 to \$2 million.⁴



Average Amount of Line of Credit: \$68,000

¹The MacArthur Foundation provided an additional grant to ESC to subsidize technical assistance consulting services for eligible arts organizations in the areas of organizational development and financial management.

²The most common projects related to financial management, coaching for organization staff, board development, and strategic planning.

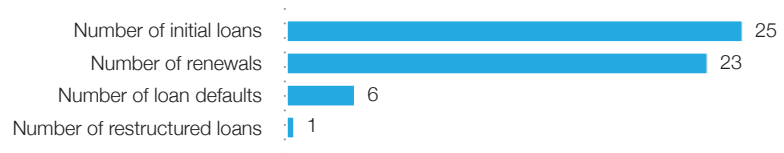
^{3,4}Only MacArthur grantees were eligible to participate in the loan fund program. Budget size was based on survey responses.

Key Findings from Evaluation

Number of Organizations Served by Each Bank



Loan Fund Program Overview



Reported Program Benefits

By providing a financing mechanism to give organizations flexible capital, borrowers were able to achieve the following outcomes in the areas of operations, programs, and financial management.

Operations

- Manage the seasonality of the work
- Weather economic distress
- Stay open and/or avoid scaling back during the economic downturn
- Pay bills

Programs

- Maintain current programs
- Take artistic risks
- Invest in growth opportunities/innovation
- Make programmatic changes
- Work with new partners and performers

Financial Management

- Rely less on loans from board members
- Create a more professional relationship between staff and board
- Stabilize finances
- Deepen experience with commercial lenders
- Increase the sophistication of financial management practices
- Develop greater discipline related to revenue, expenses, and strategic priorities

Primary Research Questions

The purpose of the evaluation of the Arts & Culture Loan Fund program was to explore the following key questions:

- *How did the organizations that received loans use the funds?*
 - *Did the program achieve the intended goal and objectives (e.g., improve short-term cash flow, strengthen financial management practices, increase access to commercial capital)?*
 - *Is this program meeting the needs of the arts organizations that it was intended to meet?*
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How Did the Organizations That Received Loans Use the Funds?

Overall, the evaluation found that organizations used funds to support ongoing operations. The funds enabled some of the organizations to maintain their staff sizes and levels of programming during the economic decline or other transition points (e.g., retirement or departure of an artistic director), and for many, the funds supported their ability to simply continue to operate. In three cases, loan fund participants were not able to survive and closed their doors.

In addition to using the funds to support operations, the organizations also had the flexibility and coverage to dedicate their time and energy to thinking about growing or evolving. In some cases, organizations changed their programmatic offerings and shifted their operating models. Many organizations indicated that the funds positioned them to be comfortable in taking artistic risks.

Did the Program Achieve the Intended Goal and Objectives?

Having access to a line of credit to manage short-term cash flow provided value in a number of ways. The benefits and outcomes largely fell into three areas critical to nonprofit management: operations, programs, and financial management.

Operations

The loan fund was often referred to as a “lifeline,” sustaining operations. More than 60% of the loan fund borrowers who completed the survey reported that the program helped them to manage the seasonality of their work and pay their bills.

The loan fund enabled some borrowers to stay in business, while others used the funds to avoid

significant cutbacks. One organization even stated, “We might not exist today without the loan fund.” Thirty-two percent of borrowers who responded to the survey stated that the loan supported their ability to weather the economic downturn. It gave others flexibility and confidence so that they could dedicate the time and energy to thinking about growing and evolving without worrying about immediate financial implications.

Programs

Borrowers in the program reported that access to the line of credit impacted programmatic decision-making, with 84% of survey respondents indicating it helped them use the funds to continue or expand existing programs.

Loan fund borrowers who responded to the survey indicated that they were able to purchase new materials and costumes (42%), take artistic risks (42%), and/or develop new performance spaces (5%). Organizations mentioned that they felt more “secure” in taking an artistic risk or investing in a new staff position. Taken collectively or individually, the program participants’ experience showed strong evidence of achieving the program’s key objectives.

Financial Management

Organizations often found that participation in the loan fund program created new internal financial discipline.

Of the survey respondents, 47% reported that the program informed the way their organizations used financial data.

In addition, many organizations mentioned that having a line of credit through the program changed the dynamic of the professional relationship between staff and board members. Prior to participating in the loan fund, many organizations (58%) reported taking a personal loan from a board member, and 26% had board members provide a personal guarantee for a loan. The line of credit changed this practice. In addition, the fact that the organizations had an existing line of credit without collateral was viewed as a positive indicator by other prospective lenders. It showed them that the organizations had experience managing this type of credit and gave them confidence about the arts organizations’ ability to manage the loan.

Is This Program Meeting the Needs of the Arts Organizations That It Was Intended to Meet?

Loan fund borrowers reported that the primary reason their organizations chose to pursue loans was the need to manage short-term cash flow. In fact, more than two-thirds of participants (68%) cited this as a reason for participating.

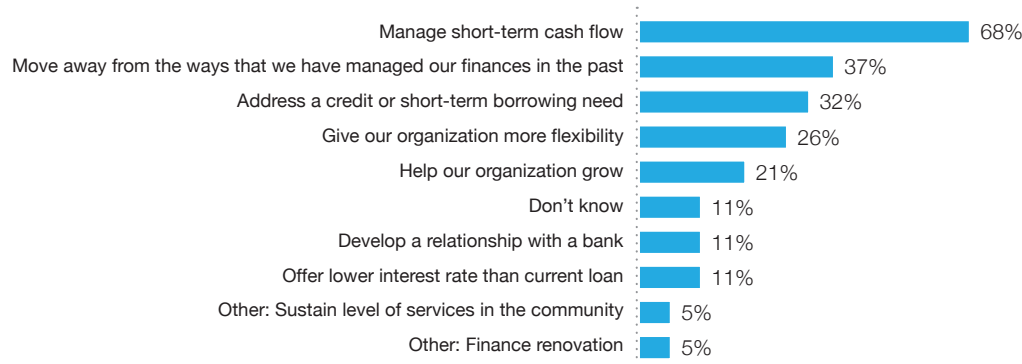
The broader economic decline that occurred during the time of the loan fund further compounded the existing cash-flow issues that occur with many arts organizations, particularly those in the performing

The evaluation found that the MacArthur Arts & Culture Loan Fund program both met its initial objectives and provided significant value to the participants. In fact, all participants indicated that they would recommend the program to others.

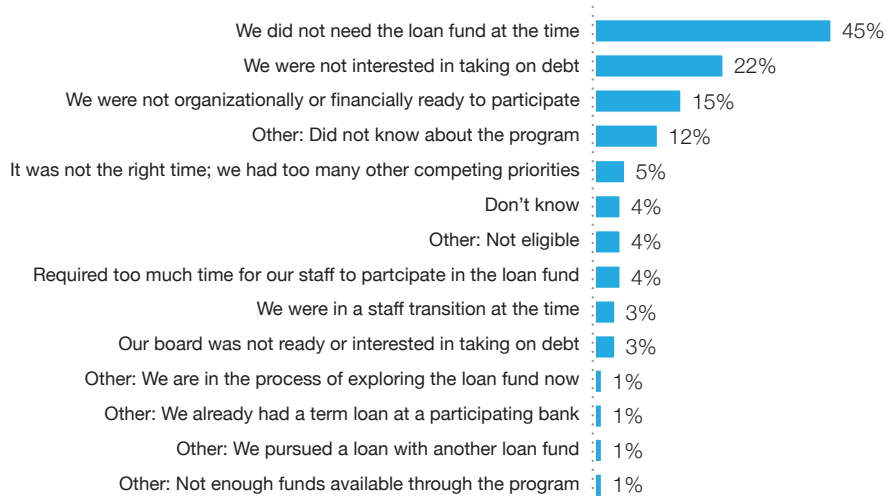
arts. The loan fund program gave the organizations an option that was not previously available to them.

Selected Charts from the Survey

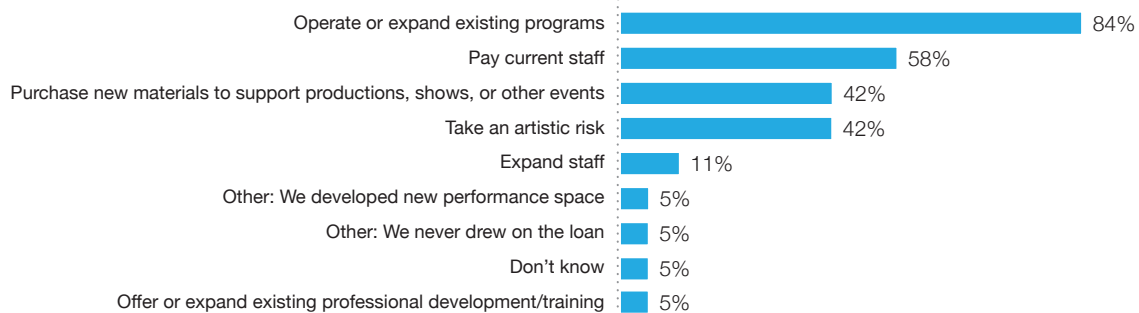
Reason for Participation⁵



Reason for Non-Participation⁶



What Did the Loan Fund Enable Your Organization to Do Programmatically?⁷

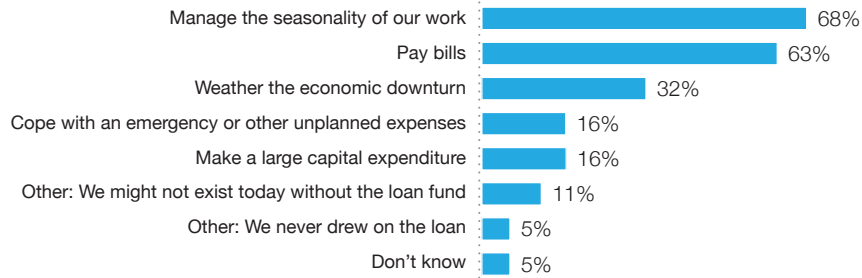


⁵ Based on survey responses from nineteen loan fund borrowers. For this question, respondents had the option to select multiple answers.

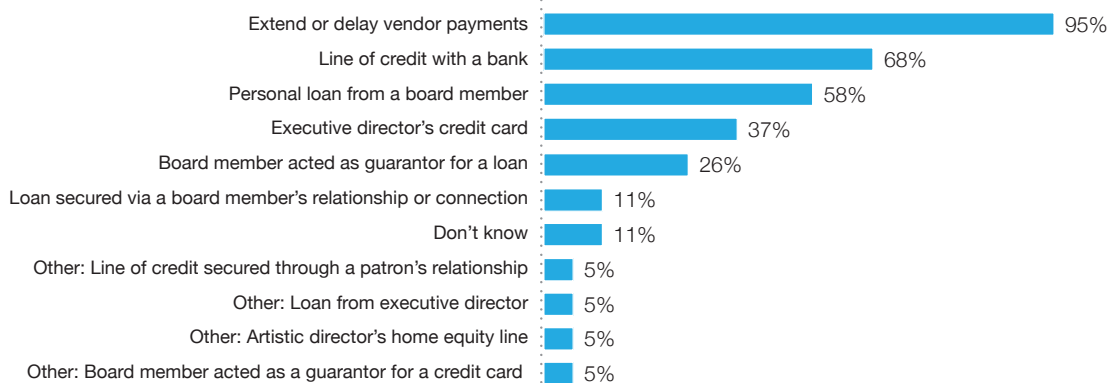
⁶ Based on survey responses from seventy-three arts organizations. For this question, respondents had the option to select multiple answers.

⁷ Based on survey responses from nineteen loan fund borrowers. For this question, respondents had the option to select multiple answers.

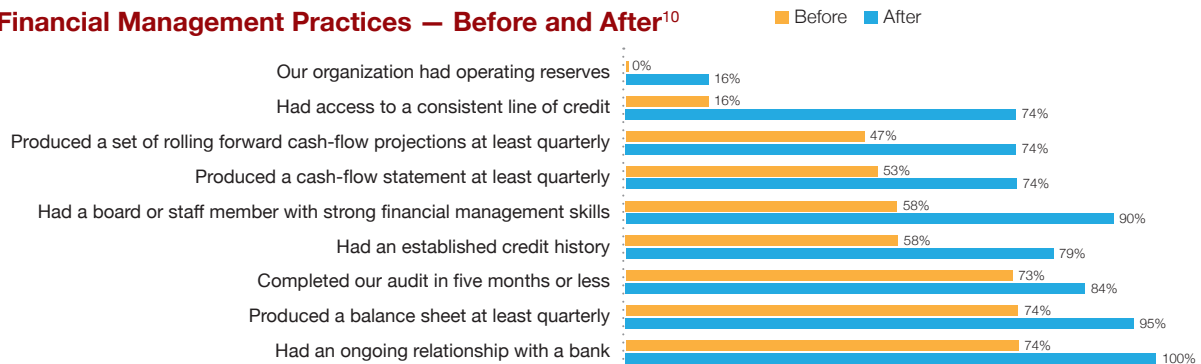
How Did the Loan Fund Impact the Operation of Your Organization?⁸



Past Cash-Flow Management Practices⁹



Financial Management Practices – Before and After¹⁰



^{8, 9} Based on survey responses from nineteen loan fund borrowers. For this question, respondents had the option to select multiple answers.

¹⁰ Based on survey responses from nineteen loan fund borrowers. This figure notes the percent of respondents who reported "Always" for the particular financial management practice. The areas noted here are the ones that had the most change for respondents when comparing practices before and after the loan fund.