Cultural Daily

Independent Voices, New Perspectives

Donor Dollar Do's and Don'ts

Diane Ragsdale · Thursday, February 9th, 2012

The other day I received an email alert from the *Philanthropy News Digest*, which mentioned that a theater company had announced a $7 million endowment challenge grant. When matched, the 3:1 challenge grant (which requires the theater to raise $2.5 million) will boost its endowment from $500,000 to $10 million. Putting aside for a moment debates over the pros and cons of endowments for performing arts organizations, I was struck by the following quote by theater's artistic director in the press:

> When reached, this unprecedented offer will enable the theatre to continue growing far into the future. […] It will ensure the theatre's ability to continue producing classic musicals and dramatic works, develop visionary new work, maintain state-of-the-art facilities for our theatre and conservatory, and remain a cultural treasure in the community.

My first (rather cheeky) thought was, "They understand they only get to spend the interest, right?" Of course, I know the theater has a smart staff and smart board and that it has accurately projected the annual income from a $10 million endowment. I do not doubt that the endowment will prove useful; and any midsized organization that can raise $10 million in this economy is to be commended. However, unless there is a crucial part of this equation I am failing to understand, a $10 million endowment cannot deliver all that is promised in that press statement.

According to Guidestar the theater mentioned in the article has an operating budget of approximately $4.5 million. Depending on how long the theater waits to begin drawing income from the endowment, and how its investments perform, it seems that the endowment will basically give the theater a boost of about 10% on its operating budget. When I glanced back through a few 990s I noted that total expenses were $4.9 million on its 2008 filing, $4.3 million for 2009, and $4.5 million for 2010. I also noted in its 2010 filing that the organization had interest payments of $271,336 related, one presumes, to the approximately $6 million debt that appears on the balance sheet (some or all of which may be for the state-of-the-art-facility).

And actually, an endowment to cover facility-related costs could be a smart strategy – though this doesn't appear to be the primary purpose of the endowment in this case.

I recognize that the reason arts organizations put statements like the one above in materials and press announcements for endowment, 'advancement' and other capital campaigns is often because they feel they must do so to attract donors. But do donors believe such statements? For that matter, do the staffs and boards of organizations believe them? If so, is everyone confused five or ten years later when another capital campaign is required just to sustain current programs and put the organization on even footing again? If not, is there any reason to continue the charade?

While it may make everyone feel better in the short term is it possible this tendency to make it appear that donor gifts (large and small) can accomplish far more than is realistic has long term negative impacts on the organization and its relationship with its donors and the community-at-large? Is it possible we avoid telling the real truth because we don't want to confront or invite others to look to closely at the total cost of ownership of our buildings, or the real costs of running our institutions and particular programs, or how much and how little (relatively speaking) is spent on various areas of operation and resources?

And on the other side of the table, it's been more than a year since the lengthy discourse emerging out of GIA on under- and mis-capitalization of arts organizations. As we head into 2012, I'm curious whether the climate is changing and funders or individual donors (two different animals, I know) are more willing to support costs like debt service, deficits, cash reserves, sinking funds, or general operating?

If not, I'd be curious to know why not?

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