

Restarting a strong arts economy and market for donor engagement through *Canadian Heritage's Canada Cultural Investment Fund – Endowment Incentives Component*

Written Submission to the Standing Committee on Finance in advance of Budget 2021

A joint submission:

THE
NATIONAL
Ballet
OF CANADA

L'ÉCOLE
NATIONALE DE
BAJAJET
DU CANADA
Dan's Ensemble

CANADA'S
NATIONAL
BAJAJET
SCHOOL
Sharing Dance

COCC CANADIAN
OPERA
COMPANY

VSO VANCOUVER
SYMPHONY
ORCHESTRA

BANFF
CENTRE FOR ARTS AND CREATIVITY

Stratford
FESTIVAL

ROYAL
MTC
MANITOBA THEATRE CENTRE

OSM ORCHESTRE
SYMPHONIQUE
DE MONTRÉAL

**CENTRE
SEGAL**
PERFORMING ARTS
ARTS DE LA SCÈNE

6
vancouveropera

OPERA PACIFIC
OPERA
VICTORIA

**The Royal
Conservatory**
The finest instrument is the mind.

TSO | Toronto
Symphony
Orchestra

WINSPEAR

**EDMONTON
SYMPHONY
ORCHESTRA**

**SHAW 20
FESTIVAL**

**LES
GRANDS BALLETS**
CANADIENS DE MONTRÉAL

Calgary
Philharmonic
Orchestra

ARTSCLUB
ALIVE ON THREE STAGES

The Dance Centre

Recommendation

Increase Canadian Heritage's Endowment Incentives component of the Canada Cultural Investment Fund (CCIF) by \$6.5 million for existing performing arts recipients, to bring it up from its current state of \$19 million to \$25.5 million.

This performing arts recipients listed on this submission also support the budgetary request coming from the art museums sector, to allow them to be eligible for Endowment Incentives. To bring museums and galleries into the program at a comparable level, and not to adversely affect access for current recipients, the budgetary allocation to the component will have to be doubled, bringing the total annual budget of the CCIF to \$54 million. Please see the Canadian Art Museum Directors Organization's (CAMDO's) pre-budget submission for context regarding their sector and request.

Executive Summary

The Endowment Incentive's component of Canadian Heritage's Canada Cultural Investment Fund (CCIF) has contributed to the development of arts endowments for 233 organizations, small and large. This government program matches up to one dollar for every eligible private donation raised for all eligible applicants. This incentivizes arts organizations to develop and maintain good relationships with private donors, and manage financial plans for organizational maturity, financial diversification and stability.

Since COVID-19 hit, endowments, which are often held in restricted funds, have been maintained as an asset for arts organizations across the country. However, a substantial decline in interest rates and the uncertainty of the future private giving market, places increased burden on arts organizations across the country. It is necessary for arts organizations to start rebuilding the value of their endowments, much of which has dropped significantly from pre-COVID levels. Public and private dollars, working in tandem, will help rebuild the Canadian arts economy and resiliency through financial diversification over the long-term.

We continue to meet with Canadian Heritage staff to explore the data, impact and administration of the Endowment Incentives component, particularly related COVID-19 impacts. In December 2019, the Department of Canadian Heritage completed their regular 5-year review of the CCIF. They found that the program continues to be relevant, efficient, and effective in delivering its objective, which is “to help arts and heritage organizations build and diversify their revenue streams, encourage private sector investment, partnership, improve their business practices, and assist them in being better rooted and recognized in their communities.”

Now more than ever, the arts are adapting to reach communities while venues and public performances are shut for public gatherings. Each arts organization has carefully considered how to maintain relationships with their many stakeholders while upholding strong business continuity throughout COVID-19. The arts sector is grateful for the COVID-19 economic relief measures that the federal government has provided to-date. An annual top-up to the Endowment Incentives program will provide a long-term complement to incentivize philanthropy and rebuild the resiliency of our sector. With this in mind, there is still an immediate need for short-mid term COVID-19 relief and recovery support. This group supports other pre-budget asks coming from the rest of the arts and culture sector so that we can all bounce back from this pandemic through diversified economic measures.

The State of the Endowment Incentives Component

The Endowment Incentives component continues to help expand existing endowments and aid in the establishment of new ones. Since 2001, the accumulative federal investment of \$250 million has leveraged \$327 million in donations from the private sector for a total of \$577 million secured in endowment funds of arts organizations. The Endowment Incentives component has seen substantial growth, with 52 applicants since the last budgetary increase in 2010, to 123 applicants who raised \$28.6 million in 2017 in private sector donations.

The true value of this component is realized in the matching percentage granted to recipients. It aids in the diversification of private and public dollars and is an appealing option to donors. The matching percentage, to our understanding, is calculated by Canadian Heritage using a formula which includes: the number of applicants, budget available, and the amount requested by each applicant. In Canadian Heritage's 2019 evaluation of the program, they acknowledged that

“The success of the CCIF Endowment Incentives component meant an increase in requests for funding in 2017-2018, that translated into a lower match ratio for each recipient. The unknown matching ratio made it difficult for some recipients to attract additional donors and grow endowments to a self-sustaining level.”

The matching percentage is operating most favourably when an 100% match can be granted to each recipient, which has occurred roughly 6 out of the 16 years that the component has existed. A healthy matching percentage has often followed a Federal Budget increase.

In 2017, the matching percentage declined significantly to 66%. Before the pandemic hit, donors were noticing the decline and asking about it, which risks their contribution due to the perceived return on investment. Donor comfort and confidence is vital for organizations of all sizes to attract funds and, without this comfort provided by the matching funds, it becomes more difficult to raise funds, justify the fundraising effort, and continue fundraising for endowments over the long-term. The recommendation for a \$6.5 million is based on historical federal budget increases to this program, along with other formulaic factors to stabilize the matching percentage from its current state of 66%, hopefully to 80 - 100% annually

During the restart and recovery from COVID-19, we cannot afford a low matching percentage. Otherwise, we further risk alienating our donor base. The market for rebuilding private philanthropy must be strongly supported through incentives like the CCIF.

Arts organizations, associations and Coalitions have been advocating for an increase to the Endowment Incentives component for a few years now, and the budgetary increase has not yet been provided. It is imperative that this program be included in Budget 2021 to incentivize re-stabilization and sustainability for the arts sector throughout COVID-19 and beyond.

Impact of the Endowment Incentives Component

Revenue diversification

Endowment revenues can be counted on. Annual disbursements contribute a strong foundation for key operations and programming activities for arts organizations and, allows arts organizations to hold significant assets to keep organizations afloat throughout times of crisis, such as the COVID-19 pandemic. Where an annual operating budget for arts organizations in Canada is usually comprised of a mix of public funding, earned revenue, private donations and sponsorships, the Endowment Incentives component contributes three-fold – it encourages private donations, matches donations through public funds, and all funds contributed to the endowment continue to grow.

Many arts organizations set a goal for their endowment fund to be three times larger than their annual operating budget. For ten of the organizations listed on this submission, the program has provided them with a combined total of \$119.5 million. With the support from this incentive program, plus donors and interest, the total value of all these endowment funds combined is approximately \$493 million. This allows each organization, on average, to disperse anywhere from \$1 million to \$4 million back into the organization annually. For some organizations, these annual disbursements represent more than they receive from public funding sources combined and/or help cover costs that may not be adequately supported by other funding sources.

In Canadian Heritage's most recent evaluation of the Canada Cultural Investment Fund, 85% of the surveyed recipients

“indicated that participating in the component had increased their organization's self sufficiency and stability. About two-thirds noted that the federal Endowment Incentives increased the value contributed by individual Canadians and the business sector. A few organizations noted that the endowment fund has become a significant revenue source for their organization over time and that government incentives are a valuable tool when seeking to raise money from other donors.”

Endowments provide a functional mechanism to continue to invest in production and presentation, innovation and employment. The disbursements that arts organizations receive from their endowment can be leveraged as arts organizations adapt their programming, keep workers employed, and reach Canadian communities during and post-pandemic.

While the endowment-to-operating budget ratio, the interest and annual disbursements, and stability have been shaken due to COVID-19, arts organizations are confident that endowment funds can continue to be a source of revenue and leverage toward a strong financial restart.

Toward strong management of arts endowments in Canada

Recipients to the Endowment Incentives component has more than doubled since 2010.

Canadian Heritage officials have noted that many new program recipients request guidance on how to start, grow and manage an endowment fund. Department officials indicated that they did not have the expertise to provide this advice.

In response to this need, the arts sector has started to develop a sector-led Endowment Mentorship and Learning Exchange. We anticipate this project to begin in April 2021, and the content of the program will be adapted to account for COVID-19 dynamics and track how arts organizations are approaching endowment giving campaigns, managing their funds internally throughout the crisis and its recovery stages, and how they are maintaining relationships with contributing donors.

We have begun outreach with several Endowment Incentives recipients, small, medium and large and tracked what they wanted to learn. Additional outreach will be conducted in light of COVID-19 changes. Many are excited about the prospect of learning among peers, especially when skills development must be acquired efficiently and effectively to rebuild financially from the pandemic.

A competitive advantage for philanthropic giving in Canada

In addition to the financial and economic benefits of this program, the creation of the federal Endowment Incentives component has created a culture of endowment giving that has spanned a generation. The diversification of revenue through endowments leads to more options for donors, and the continued participation in the Endowment Incentives component has improved philanthropic development and retention, which becomes even more important to maintain throughout recovery stages.

Some donors are finding new and innovative ways to use matching, asking organizations how they can match funds in other ways. Matching funds are now regarded as an innovative solution for Canadian culture's fundraising endeavours.

The generosity of donors, matched by the generosity and leadership from government, allows arts organizations across Canada to raise funds in ways that would be impossible without the Endowment Incentives component.

Conclusion

The Endowment Incentives component is one particularly important way to help rebuild from COVID-19, especially where many facets of the Canadian arts economy have been affected. Arts organizations will want to instill donor confidence throughout the pandemic, and there is even more incentive to donate when they know that government will match their contribution.

This ends up benefitting cultural production and the people who work in and interact with Canadian culture, keeping cultural workers employed and citizens engaged.

The Endowment Incentives component of CCIF is valued by us and our donors for its demonstrated impact, its legacy, and for its simplicity. It will continue to be an important program for the arts sector's restart and recovery from COVID-19. Thank you for your consideration for strengthening this important program.

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