



ARTS & the Economy 2003

METROPOLITAN NASHVILLE ARTS COMMISSION

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This report was produced by Middle Tennessee State University, the Nashville Area Chamber of Commerce, and the Metropolitan Nashville Arts Commission. Study team contributors are identified on page 37.

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Arts & the Economy 2003 is the report of a study conducted during 2004 of data collected for the fiscal year 2002-2003. For a copy of the eight previous studies, for years 1995 through 2002, please contact:

Metropolitan Nashville Arts Commission
209 10th Avenue South, Suite 416
Nashville, TN 37203-0772
(615) 862-6720
(615) 862-6731 fax
arts@nashville.gov
www.artsnashville.org

Arts & the Economy 2003

ARTS & THE ECONOMY 2003 IS THE NINTH ANNUAL study examining the economic state of the nonprofit arts in Nashville. Collaborators in the research effort are Middle Tennessee State University, the Nashville Area Chamber of Commerce and the Metropolitan Nashville Arts Commission. Sixty arts groups in the Nashville Metropolitan Statistical Area completed surveys about their fiscal year 2003 operations. (See Participating Arts and Cultural Organizations on page 34 for a full list of Nashville-area survey respondents.)

Overview

The impact of the nonprofit arts on Nashville continued its steady growth in 2003. In addition to increased cultural and educational offerings, the arts generated \$158.9 million in community-wide business sales, including \$112.3 million in personal income from 1,884 full-time equivalent jobs. State and local taxes raised by arts activities amounted to \$5.2 million. Arts organizations reported record highs of earned revenue, at \$42.9 million, and total revenue, at \$80.4 million. However they also incurred increased operating expenses, resulting in a net cash deficit of \$2.0 million for 2003 – the third straight year of bottom-line deficits. While earned revenue was up significantly, contributions rose only slightly. Total private funding of the arts fell for the second year.

Results of operations

The combined operating results (see Table 1 on page 4) of the sixty participating arts organizations showed attendance at arts events to be 2.4 million in 2003, up 12.4% over 2002. That translated to a 7.9% increase in total earned revenue, from \$39.8 million in 2002 to \$42.9 million in 2003. When contributions are added in, total revenue increased 9.5%, from \$73.4 million in 2002 to \$80.4 in 2003. Both earned revenue and total revenue are at their highest levels since the study began. Looking at the long-term trend, one sees a steady increase in both measures from 1995-1998. A big dip in 1999 may have been due to the expansion of professional sports and the increased competition for entertainment dollars and contributions. Arts revenues bounced back in 2000, returning to an upward trend that has seen total revenue increase 18.4% since then.

Nashville arts organizations have been increasingly successful in generating earned revenue, earning 53.4% of their total revenue and covering 52.0% of their operating expenses in 2003 (see Table 2 on page 5). Yet they must rely on contributions to make up the shortfall. In 2003, total contributions were \$29.0 million, a mere 3.3% increase over 2002, at \$28.1 million. Contributions by individuals were up 56.1% to \$8.2 million, while those by business were down 47.4% to \$2.2 million. Contributions by guilds and auxiliaries rose 3.8% to \$1.4 million and those by foundations fell 19.4% to \$7.9 million. Total private funding was \$19.7 million, a drop of 4.1%. On top of a decrease of 3.8% in 2002, the fall in private funding puts arts organizations at further risk.

Table I – Trend analysis data from 1995 to 2003

For the fiscal year ending in	1995	1996	1997	1998	1999	2000	2001	2002	2003
Attendance (in thousands)									
Paid			1,443	1,726		1,696	1,521	1,423	1,407
Complementary			1,043	871		922	890	717	999
Total attendance	2,060	2,400	2,486	2,597	2,430	2,618	2,411	2,140	2,406
Revenue and expenses (in thousands of dollars)									
Earned revenue									
Paid admissions	23,866	24,037	29,412	33,542	21,473	25,856	32,536	37,252	37,486
Other								2,514	5,410
Total earned revenue	23,866	24,037	29,412	33,542	21,473	25,856	32,536	39,766	42,896
Private support									
Contributions (individual)	5,464	2,690	5,003	10,473	4,759	4,535	4,355	5,262	8,213
Contributions (business)	2,869	2,738	2,647	4,385	5,604	5,023	3,767	4,094	2,154
Guilds and auxiliaries	1,679	1,673	1,016	1,116	877	710	2,141	1,357	1,408
Foundations	1,633	2,307	3,044	4,394	4,671	2,619	11,020	9,769	7,877
Total private support	11,644	9,406	11,709	20,367	15,911	12,887	21,283	20,482	19,652
Government	3,275	4,726	8,662	7,619	9,777	13,268	6,984	7,593	9,344
Other revenue	6,091	6,737	7,486	7,854	13,351	15,854	13,875	5,596	8,491
Total revenue	44,877	44,906	57,270	69,382	60,512	67,865	74,678	73,437	80,383
Less operating expenses ¹	42,403	49,100	55,542	62,238	54,192	62,067	76,116	78,654	82,420
Net operating surplus (deficit)	2,474	(4,194)	1,728	7,144	6,320	5,798	(1,439)	(5,217)	(2,037)
Less capital outlays	2,384	4,800	6,542	5,660	26,600	10,730	22,192	17,334	12,368
Free cash flow²	89	(8,994)	(4,814)	1,484	(20,280)	(4,932)	(23,630)	(22,551)	(14,405)
Employment dependent on the arts (full-time-equivalent jobs)									
Direct	1,157	1,080	1,656	1,208	867	914	896	1,088	983
Indirect and induced	586	896	692	978	459	484	897	976	901
Total FTE employment	1,743	1,976	2,348	2,186	1,326	1,398	1,793	2,064	1,884
Economic impact (personal income) (in thousands of dollars)									
Direct	15,947	19,229	22,611	24,144	22,360	29,776	32,153	38,804	39,981
Indirect and induced	15,605	18,816	22,126	26,744	22,360	30,076	33,102	35,206	37,891
Total impact	31,552	38,045	44,737	50,888	44,719	59,852	65,254	74,010	77,872
Artist compensation (included in operating expenses) (in thousands of dollars)									
Reside within MSA	5,344	4,337	7,335	7,229	4,000	4,790	5,916	4,834	5,496
Reside outside MSA	5,100	4,548	5,232	7,665	4,641	3,882	6,651	5,125	6,169
Total compensation	10,444	8,884	12,567	14,894	8,641	8,672	12,567	9,959	11,665
Net earned income (loss) before contributions (in thousands of dollars)									
Earned revenue	23,866	24,037	29,412	33,542	21,473	25,856	32,536	39,766	42,896
Operating expenses	42,403	49,100	55,542	62,238	54,192	62,067	76,116	78,654	82,420
Total income (loss)	(18,537)	(25,063)	(26,130)	(28,696)	(32,720)	(36,211)	(43,581)	(38,888)	(39,524)
Number of volunteers	4,784	7,378	6,209	8,075	8,538	8,325	6,294	6,718	6,250
Number of organizations reporting	52	66	65	65	59	60	58	72	60

1 Operating expenses do not include depreciation or amortization.

2 Free cash flow may or may not include funds from capital contributions and may be offset by in-kind contributions not reported. Capital campaign contributions were not reported separately.

However government contributions rose 23.1% in 2003 to \$9.3 million, helping maintain the overall level of contributions. Likewise, other revenue (endowment income, investment income, concessions, sponsorships, interest, activity fees, space rentals, and leases) rose 51.7% to \$8.5 million after a precipitous fall the year before, contributing substantially to the increase in total revenue.

Operating expenses for 2003 increased along with revenue to a record high. (Operating expenses do not include depreciation or amortization.) Total operating expenses rose 4.8% to \$82.4 million, resulting in a net cash deficit of \$2.0 million. This is the third year straight that arts organizations have not been able to produce a cash surplus, though this year's deficit level was an improvement over the net deficit of \$5.2 million in 2002, which was the worst operating result since the study began. It's too early to tell if the recent positive trend will produce a surplus next year or if deficits will continue.

Table 2 – Other results

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Earned revenue as percent (%) of total revenue	53.2	53.5	51.4	48.3	35.5	38.1	43.6	54.2	53.4
Earned revenue as percent (%) of operating expenses	56.3	49.0	53.0	53.9	39.6	41.7	42.7	50.6	52.1

Capital expenditures, at \$12.4 million, declined for the second year, though they are expected to trend upward again as the Schermerhorn Symphony Center nears completion in 2006. The free cash flow was a deficit of \$14.4 million. (Free cash flow may or may not include funds from capital contributions and may be offset by in-kind contributions not reported. Capital campaign contributions were not reported separately.)

Economic impact

This year for the first time the study includes the impact of community-wide business sales revenue and taxes generated by the arts. Previously, economic impact was measured only in terms of employment and personal income. *Arts & the Economy 2003* provides a much fuller picture of the overall economic impact of the nonprofit arts.

Community-wide business sales attributable to the operations of arts organizations is \$100.0 million (see Table 3 on page 6). Combined with the business sales attributable to audience ancillary spending for meals, transportation, and merchandise, etc., the total business revenue resulting from arts activities is \$158.9 million.

Though the number of full-time-equivalent jobs dependent on arts organizations decreased 8.7% to 1,884 in 2003, personal income generated by arts groups increased 5.2% to \$77.9 million, the highest level since the study began, in 1995. This number includes the personal income earned by arts organization employ-

ees and contractors, \$40.0 million, as well as \$37.9 million, the personal income derived from the spending of arts organizations and their suppliers and the spending of employees of arts organizations and suppliers. When the total amount generated by arts organizations is added to the amount generated by audience ancillary spending, \$34.4 million, the comprehensive economic impact is \$112.3 million in personal income added to the Nashville economy.

Table 3 – Measures of economic impact

	2003	2002
Business sales revenue (in millions of dollars)		
Arts organizations	100.0	not reported
Arts audiences	58.9	not reported
Total	158.9	not reported
Personal income (in millions of dollars)		
Arts organizations	77.9	74.0
Arts audiences	34.0	30.2
Total	112.3	104.2
State and local taxes (in millions of dollars)		
Arts organizations	5.2	not reported
Arts audiences	not reported	not reported
Employment (full-time-equivalent jobs)		
Arts organizations	1884	2064

State and local taxes generated by arts organizations is \$5.2 million, which is nearly as much as the dollars that state and local governments contributed to the arts in 2003 (\$6.0 million). The \$5.2 million tax figure does not include the taxes attributable to audience ancillary spending.

Economic impact analysis: procedure and assumptions

In measuring the impact of the arts on the Nashville economy, this study first aggregates the results of operations for all participating arts organizations and calculates the total number of jobs, personal income, and business sales revenue reported by those organizations. To further quantify the economic impact, it also considers the ripple effects of personal income and business sales throughout the local economy. These secondary effects are estimated by input-output analysis that is part of the IMPLAN economic model. IMPLAN also calculates the local and state tax revenue generated by Nashville arts organizations. Finally, the study employs data from Americans for the Arts representing ancillary spending by audiences in connection with arts events in other cities to estimate the impact of audience ancillary spending in Nashville. Americans for the Arts is the nation's leading nonprofit organization for advancing the arts in America.

Direct effects

The direct effect of arts employment includes the total number of reported full-time employees of arts organizations plus the full-time equivalents (FTEs) associated with their part-time employees. The direct effect of personal income includes the total reported pre-tax staff payroll of arts organizations as well as compensation paid directly to Nashville residents for contracted artistic, performance, and production services. The direct effect of business sales includes the total spending of arts organizations to purchase goods and services in the local economy.

Secondary effects

To quantify the total economic impact this study uses a hybrid approach, which means that it combines the use of a survey to gather information on direct impacts with the use of an input-output analysis model called IMPLAN to estimate subsequent secondary impacts. Secondary impacts fall into two general categories: Indirect effects include all employment, business sales, and personal income generated by local suppliers to arts organizations, as well as suppliers to those firms. Induced effects include all employment, business sales, and personal income generated by the employees of arts organizations and suppliers as they spend their personal income in the local economy. IMPLAN, developed by the Minnesota Implan Group, Inc., is a predictive model based on regional accounting matrices that simulates the inter-industry transactions occurring for any additional increase in demand in a regional economy. In this case, the increase in demand is attributed to the presence of nonprofit arts organizations and has been measured by jobs, business sales, and personal income.

Indirect effects of non-payroll expenditures

All respondents to the 2003 survey itemized their expenses and, for the first time, specified the portion of each expenditure category that was spent outside Metro Nashville, enabling a better estimate of the local impact. Total reported expenditures were then assigned to several of the 525 IMPLAN sectors, which are based on the 1987 Standard Industrial Classification. However, for the expenses reported as "other," the average purchase proportions from sectors 484 (theatrical producers, bands, etc.) and 502 (other nonprofit organizations) were used to disaggregate these expenditures for placement in the appropriate IMPLAN sectors. The model then uses these non-payroll expenditures to calculate the successive rounds of jobs, business sales, and personal income associated with local suppliers to arts organizations, as well as suppliers to those firms.

Induced effects of payroll

The induced effects of payroll were estimated as follows:

First, because compensation for artistic, performance, and production services is paid to both firms and individuals, the portion paid to individuals was estimated and separated from payments to firms supplying such services. The arts organizations were specifically asked in the survey to estimate the percentage of artistic com-

pensation that each pays to individuals. A minor change from the previous surveys was that this year's study used the reported amount of compensation to artists by each organization, rather than deriving the amount of artist compensation through assumptions.

Disposable income, or take-home pay, was allocated to high, medium, and low income levels in the same proportions as in the 1998 *Arts & the Economy* report. Disposable income was assumed to be 75% of total income, a factor that is generated by IMPLAN's structural accounting matrix. This factor is a regional average that accounts for all taxes and savings typically deducted before households spend their take-home pay.

The model's appropriate household-consumption functions were then used to calculate the successive rounds of jobs, business sales, and personal income associated with household spending of disposable income earned from arts employment.

Total direct and secondary effects

Total direct and secondary impact represents the employment, business sales, and personal income generated by the spending of arts organizations and their employees, and of local suppliers and their employees. This estimate does not include the substantial employment related to the \$12.4 million in capital spending undertaken in fiscal year 2003. All impacts are presented in 2003 dollars.

Table 4 – Business sales revenue and tax impact for 2003

Business sales revenue (in millions of dollars)	
Direct	66.2
Indirect and induced	33.8
Total business sales revenue effects	100.0
Tax impact (in millions of dollars)	
Total direct local and state sales tax ³	1.9
Total indirect local and state sales tax ⁴	3.3
Total state and local tax	5.2

Business sales revenue refers to total business transactions generated, directly or indirectly, by the presence of arts organizations in the greater Nashville economy. Business sales revenue impact is reported for the first time in this study. The community-wide sales revenue impact of the arts on the Nashville economy is estimated at \$100.0 million for 2003.

Even though nonprofit arts organizations are tax-exempt, they still generate significant local and state sales tax revenue through: (1) the spending of their employees and (2) successive rounds of taxable business spending. The estimated tax impact of the arts in 2003 was \$5.2 million. Tax impact estimates were not made in previous studies.

3 Assuming a flat ten percent sales tax on taxable income which is calculated using the Consumer Expenditure Survey for the southern region at www.bls.gov/cex/home.htm.

4 Refers to "business to business" transactions.

Table 5 – Employment and personal income impact

	2000	2001	2002	2003	Percent change	
					2000-3	2002-3
FTE employment dependent on the arts (number of jobs)						
Direct	914	896	1088	983	7.5%	-9.7%
Indirect and induced	484	897	976	901	86.2%	-7.7%
Total FTE	1398	1793	2064	1884	34.8%	-8.7%
Economic impact (personal income, in millions of dollars)						
Direct	29.8	32.2	38.8	40.0	34.3%	3.0%
Indirect and induced	30.1	33.1	35.2	37.9	26.0%	7.6%
Total impact	59.9	65.3	74.0	77.9	30.1%	5.2%

Total employment generated by the arts in Nashville, including direct, indirect, and induced, was 1,884 jobs in 2003. This is an 8.7% decline from the previous year. Despite that decrease, total full-time employment dependent on the arts has increased 34.8% since 2000.

Total personal income generated by the arts increased 5.2% from the previous year to \$77.9 million in 2003. This is an increase of 30.1% from a level of \$59.9 million in 2000.

Ancillary spending

Ancillary spending is defined as spending by individuals for goods and services in connection with attending arts events. Meals, souvenirs, and overnight accommodations are examples of ancillary spending. Some ancillary spending constitutes Other Revenue for arts organizations, but most of it is captured by commercial businesses. Ancillary spending related to arts events in the Nashville Metropolitan Statistical Area is estimated based on a comprehensive data set on ancillary spending from Americans for the Arts. *Arts & Economic Prosperity*, published in 2002 (see Selected Bibliography on page 36), examines ancillary spending and its related economic impact in terms of personal income for ninety-one communities across the United States. Exhibit 1 on page 32 gives ancillary spending data for twenty-six representative cities with populations ranging from 250,000 to one million plus.

The economic impact of ancillary spending in terms of personal income is about 60% of that spending. Ancillary spending related to arts events in the Nashville area is estimated to be \$58.9 million, of which \$34.4 million translates into economic impact from the standpoint of personal income. The total economic impact on personal income from arts organizations and ancillary audience spending during 2003 in the Nashville area is estimated to be \$112.3 million.

Trends and correlations

This section features charts that reveal important trends pertaining to the Nashville arts scene. These charts will be more meaningful if they are examined in the context of a general economic model of nonprofit arts organizations. Generally speaking, organizations that produce arts events have fixed administrative expenses, and they undertake a series of “event investments” entailing significant up-front production and marketing costs. Incremental operating expenses related to the number of people attending each event are relatively low. On the other hand, earned revenue from ticket sales, refreshments, merchandise, etc. are directly related to attendance.

In short, the arts are a risky business – especially these days in the face of declining subscription sales and growing competition for the entertainment dollar. Arts management must carefully weigh the potential of each offering to generate net income. Furthermore, because very few arts organizations can balance their budgets from ticket sales, they must rely on contributions and seek other sources of revenue. An additional challenge is a dwindling supply of volunteers, who support development, marketing, and administrative activities at little or no cost.

All time-series charts feature two linear trend lines – one that spans the entire 1995-2003 study period and a second that runs from 1999-2003. Generally, the charts show an upward or neutral trend for the entire period and a mix of trends – up, down, flat – over the past five years. In other words, a close look at the situation reveals that certain economic attributes of Nashville's arts groups peaked in the late 1990s, before other entertainment options burgeoned with the expansion of professional sports in 1999.

Another significant factor that has emerged from data collected over time is that arts-venue capacity was reached eight years ago. Nashville's arts organizations need additional rehearsal, performance, and exhibition space if they are to compete effectively for entertainment dollars. The opening of the Martha Rivers Ingram Hall at the Blair School and the Frist Center for the Visual Arts, the renovations of the Tennessee Performing Arts Center (TPAC) and the construction of Schermerhorn Symphony Center, scheduled to open in 2006, are important steps in addressing these needs.

An important figure to consider is the operating surplus referred to earlier in Table 1. Nashville arts organizations generated a surplus from 1997 to 2000, but deficits have prevailed since that time as operating expenses have risen 11.4% per year compared to total revenue rising 7.4% per year. It is encouraging to note that earned revenue as a percentage of total revenue exceeded 50% in 2002 and 2003, which shows a sustained recovery from 35.5% in 1999. The question raised in 2001 about Nashville's arts organizations being able to continue producing quality performances during troubled economic times has yet to be answered. However continuing deficits are not a good sign. This concern and other trends are shown graphically and discussed below. The charts are based on the Trend Analysis Data table on page 4.

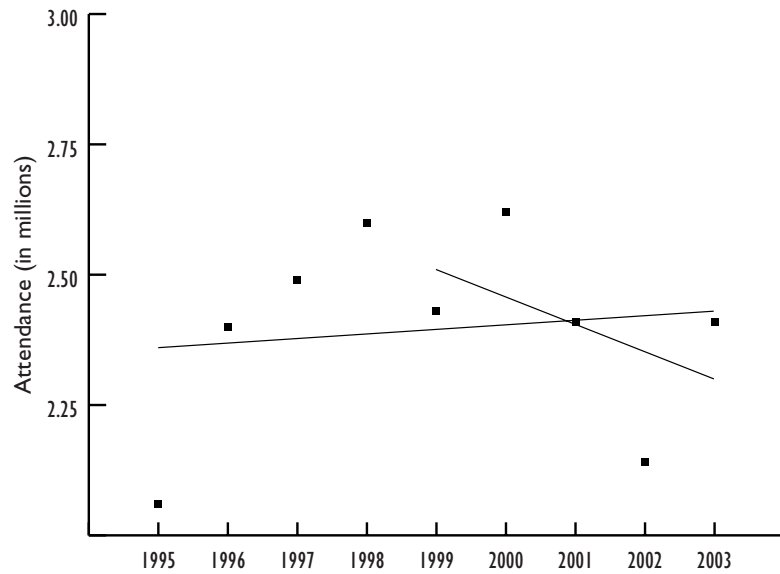
Charts

The charts below were developed using regression techniques to find the lines of best fit between data points. As an aid to research work, the equations found by regression for each trend line are given along with r^2 values. Trend lines for time series are based on linear regression.⁵ A quadratic regression model is used for correlating independent (x) and dependent (y) variables. The r^2 values, ranging from 0 to 1, express the likelihood that the regression line represents a relationship between the x and y values. Low r^2 values indicate a weak relationship due to data scattering, a flat regression line or both.

Figure 1 – Total attendance at art events

1995–2003
 $y = 0.0079x - 13.486$
 $r^2 = .0136$

1999–2003
 $y = -0.0526x + 107.65$
 $r^2 = .2382$



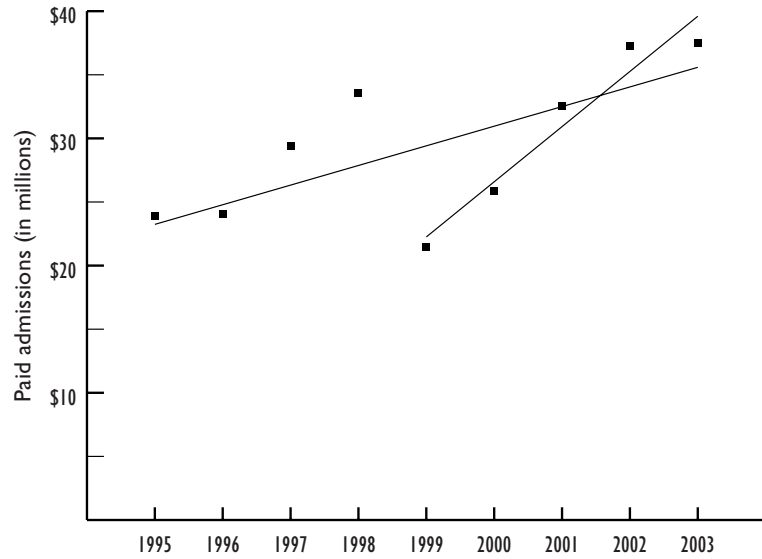
Although attendance in 2003 increased by 12.4% over 2002, the trend line has been flat at about 2.4 million since 1995. The trend line since 1999 is also generally flat at this level.

⁵ Linear regression was used for all time-series charts even though a nonlinear model would have produced a closer fit to the data in many cases. Linear regression was selected because of the limited number of data points, which represent somewhat different populations. When it is difficult to establish whether a given data pattern is due to variance or a nonlinear effect, it is generally good practice to use a linear model (especially for forecasting purposes). The possibility of a nonlinear effect was addressed by using two linear trend lines covering different time spans.

Figure 2 – Revenue from paid admissions

1995–2003
 $y = 1.5448x - 3058.5$
 $r^2 = .4959$

1999–2003
 $y = 4.3423x - 8658.0$
 $r^2 = .9394$

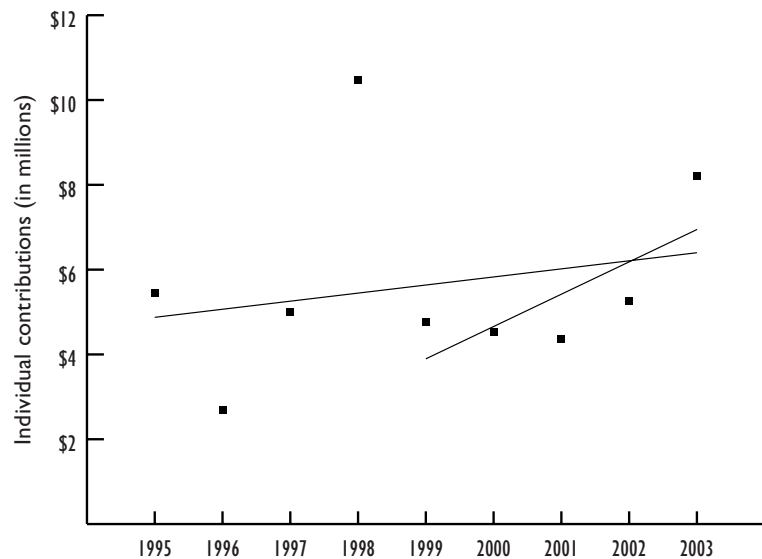


Although revenue from paid admissions increased only slightly from 2002 to 2003, this revenue has trended upward since 1995. There has been a substantial recovery in admission revenue since 1999, when paid admissions dropped precipitously. Nevertheless, ticket sales, contributions, and other revenues have not kept pace with the rise in operating expenses over time (see Figures 16 and 17).

Figure 3 – Contributions by individuals

1995–2003
 $y = 0.1914x - 376.92$
 $r^2 = .0512$

1999–2003
 $y = 0.7636x - 1522.5$
 $r^2 = .5727$

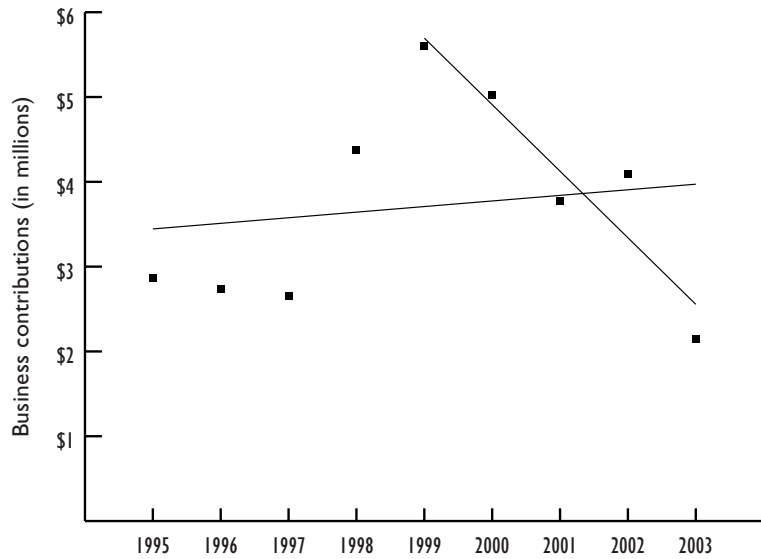


The trend lines for individual contributions follow the pattern for paid admissions, both of which indicate a significant increase in individual interest in the arts. Despite flat attendance over the past several years, individuals have been willing to spend higher amounts on admissions and in contributions.

Figure 4 – Contributions by businesses

1995–2003
 $y = 0.0681x - 132.50$
 $r^2 = .0250$

1999–2003
 $y = -0.7829x + 1570.7$
 $r^2 = .8747$

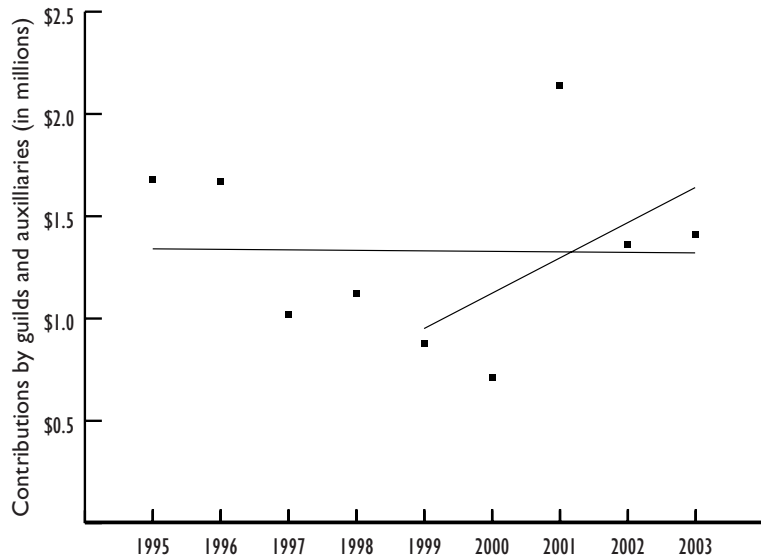


Business contributions have been falling since 1999, and reached a new low in 2003. The decline from 2002 to 2003 is 47.4%, with considerable data scattering.

Figure 5 – Contributions by guilds and auxiliaries

1995–2003
 $y = -0.0031x + 7.5818$
 $r^2 = .0004$

1999–2003
 $y = 0.1708x - 340.55$
 $r^2 = .2337$

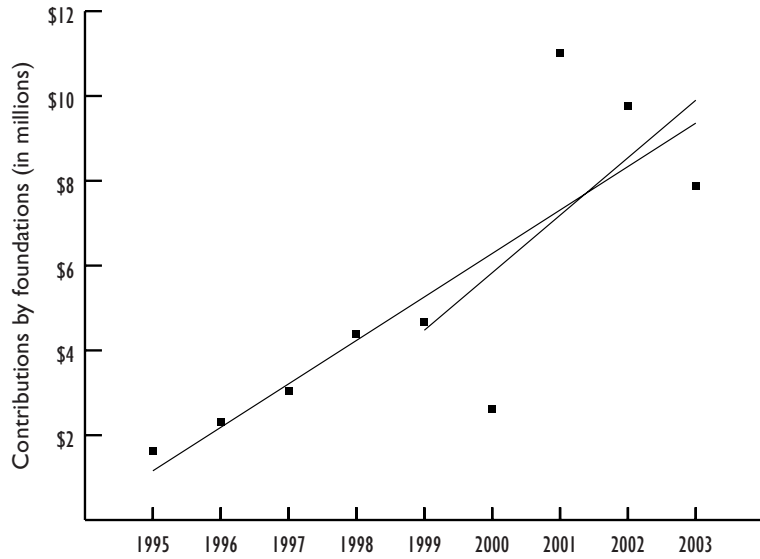


Contributions by guilds and auxiliaries are characterized by a flat trend line since 1995, but an upward one since 1999 as a result of a substantial high point in 2001. The increase from 2002 to 2003 is 3.8%, but there have been much larger year-to-year variances in both directions in the past.

Figure 6 – Contributions by foundations

1995–2003
 $y = 1.0257x - 2045.1$
 $r^2 = .6629$

1999–2003
 $y = 1.3562x - 2706.6$
 $r^2 = .3751$

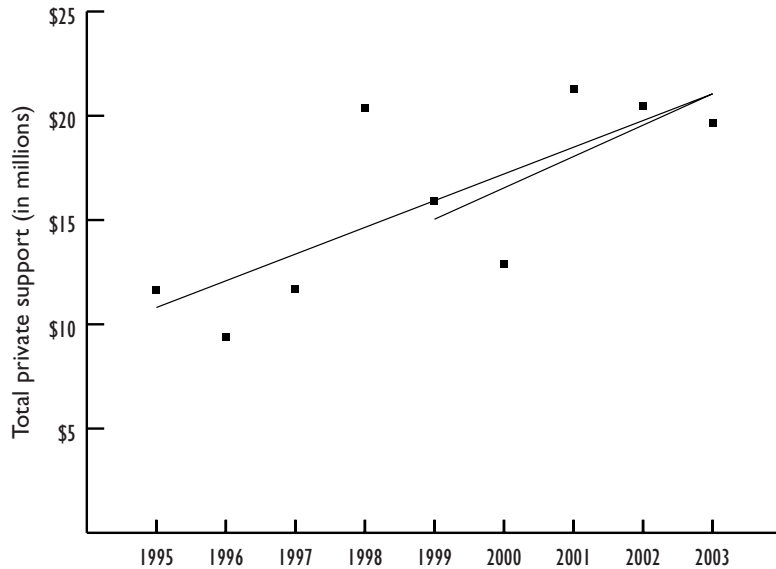


Contributions by foundations fell 19.4% from 2002 to 2003. Nevertheless the trend lines since 1995 and 1999 are both positive. Data scattering is pronounced.

Figure 7 – Total private support

1995–2003
 $y = 1.2821x - 2546.9$
 $r^2 = .5770$

1999–2003
 $y = 1.5077x - 2999.0$
 $r^2 = .4531$

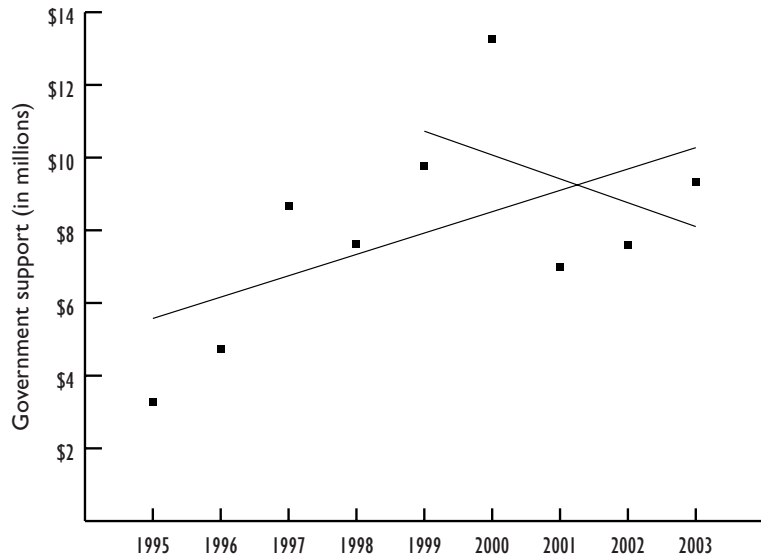


Total non-government support for the arts has generally increased since 1995. The trend line since 1999 is equally strong. However it should be noted that total private support has fallen off since 2001, an alarming short-term trend.

Figure 8 – Government support

1995–2003
 $y = 0.5861x - 1163.7$
 $r^2 = .3055$

1999–2003
 $y = -0.6542x + 1318.4$
 $r^2 = .1768$

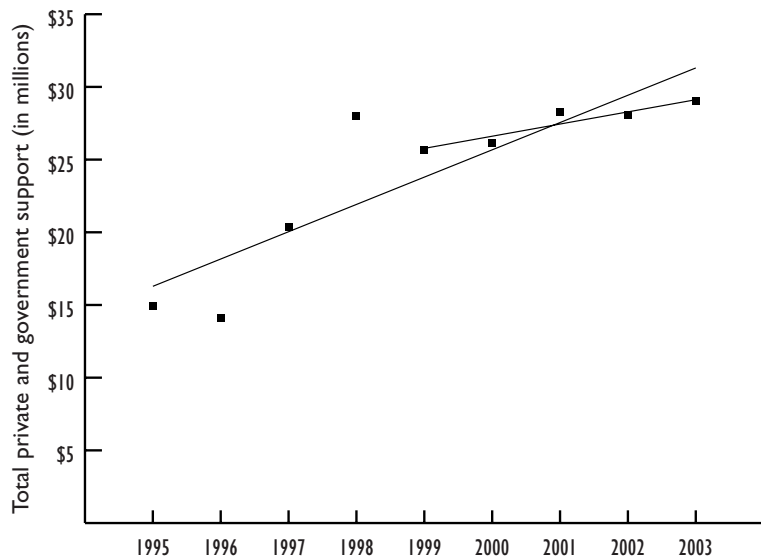


Although the government-support trend line since 1995 is positive, the trend line since 1999 is negative – despite an upward trend for the past two years and a 23.1% increase in support from 2002 to 2003. This chart is characterized by significant data scattering.

Figure 9 – Total private and government support

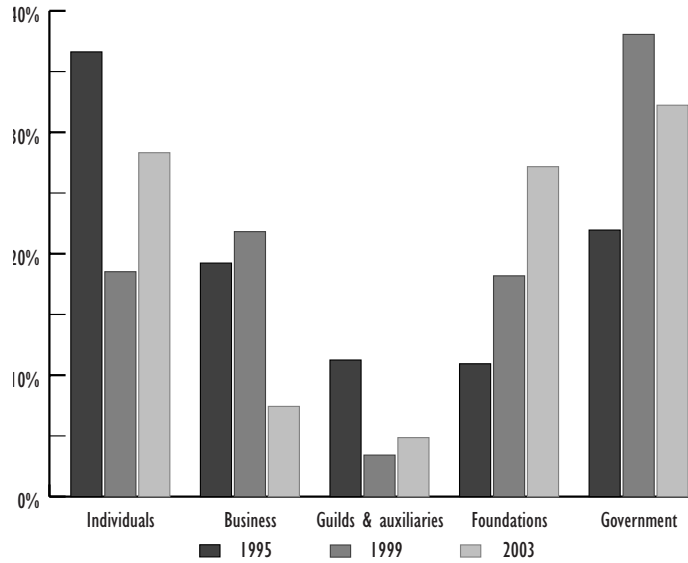
1995–2003
 $y = 1.8682x - 3710.7$
 $r^2 = .7590$

1999–2003
 $y = 0.8536x - 1680.6$
 $r^2 = .8854$



Total support for the arts has generally increased since 1995, but the rate of increase has fallen off since 1999, when there was a significant decrease from the prior year.

Figure 10 – Distribution of contribution sources: 1995, 1999, 2003

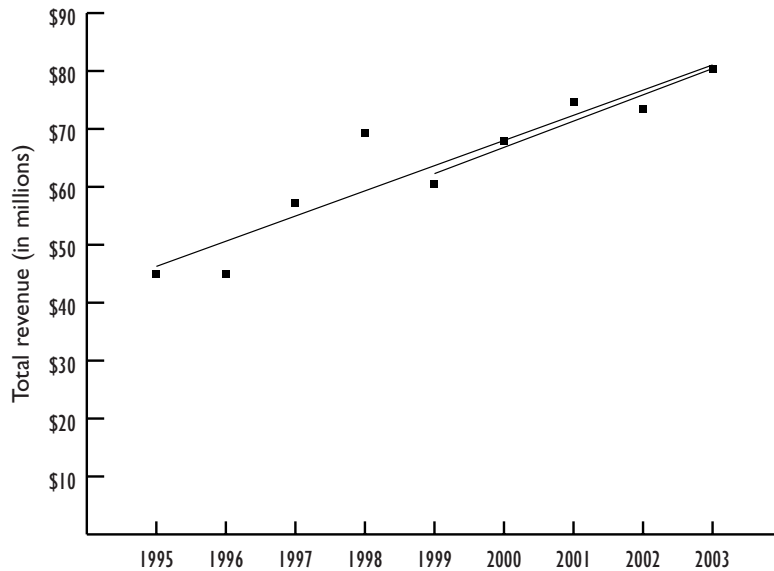


The distribution of contributions to the arts shows that foundations and government have provided a majority of the financial support over the 1995–2003 time period, as contributions from other sources have generally declined as a percentage of total contributions.

Figure 11 – Total revenue

1995–2003
 $y = 4.3486x - 8629.1$
 $r^2 = .8712$

1999–2003
 $y = 4.5314x - 8996.0$
 $r^2 = .9060$

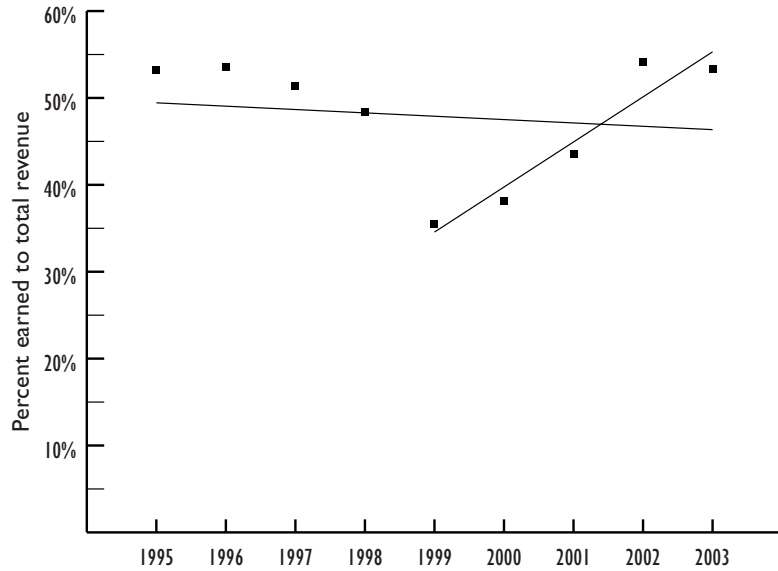


As one might expect from the previous charts, the trend lines for total revenue have increased steadily since 1995. The trend line since 1999 corresponds well with the 1995-2003 trend line. When considering this result, coupled with a comparison of revenue sources (Figure 13), it is apparent that Nashville arts groups depend primarily on earned revenue and private support (all non-government contributions combined) to fund their activities.

Figure 12 – Ratio of earned revenue to total revenue

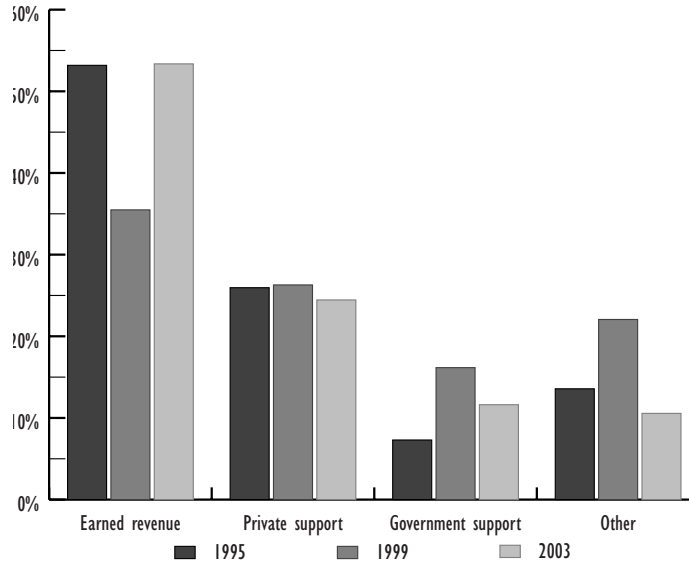
1995–2003
 $y = -0.0039x + 8.2153$
 $r^2 = .0219$

1999–2003
 $y = 0.0518x - 103.22$
 $r^2 = .9134$



The ratio of earned revenue to total revenue declined from 48.3% in 1998 to 35.5% in 1999. Since that time the ratio has increased, to 54.1% and 53.4% in 2002 and 2003 respectively, which matches the percentages reported for 1995 and 1996. There is a difference, however. Whereas earned revenue was generated by paid admissions in the early years, it is now a combination of ticket sales and ancillary sales (such as merchandise), as arts organizations have been forced to seek new sources of revenue in the face of flat ticket sales.

Figure 13 – Distribution of revenue sources: 1995, 1999, 2003

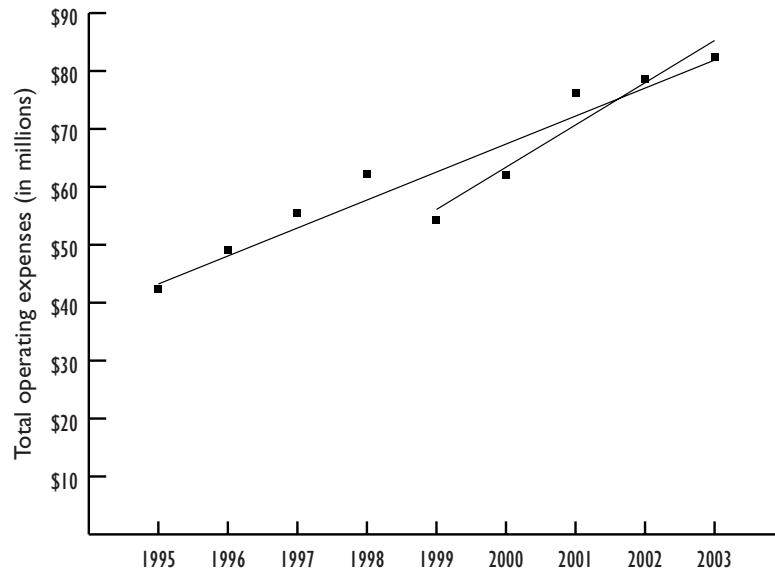


The distribution of revenue sources shows that earned revenue – ticket sales and ancillary sales at events – has been the most important revenue source for Nashville's arts organizations over time. Total private support is next, followed by other revenue and government support. (Proceeds from endowments is a good example of other revenue.)

Figure 14 – Total operating expenses

1995–2003
 $y = 4.8284x - 9589.5$
 $r^2 = .9058$

1999–2003
 $y = 7.3042x - 14545$
 $r^2 = .9247$

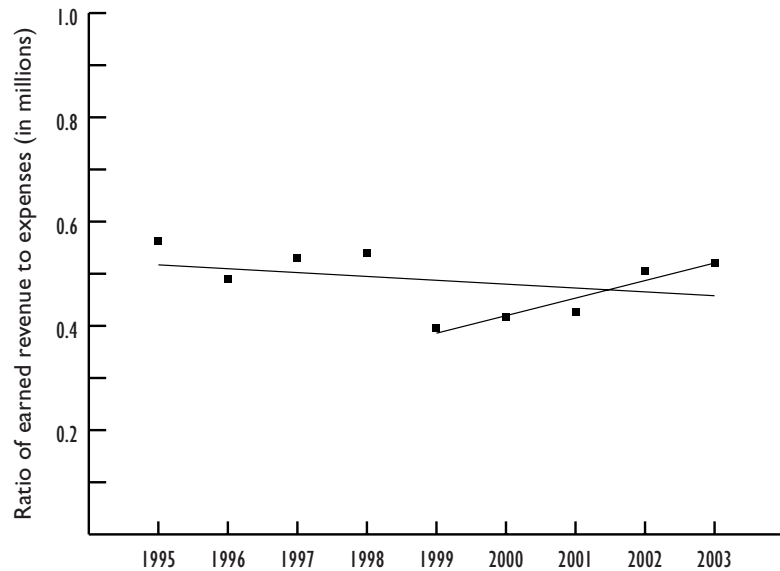


Total operating expenses have increased steadily since 1995. The compound annual growth rate from 1995 is 8.7%; from 1999 the CAGR is 11.1%, which exceeds the 7.5% total revenue growth rate for both time periods. The situation has eroded the ability of Nashville arts organizations to generate a surplus, as seen in Figures 16 and 17.

Figure 15 – Ratio of earned revenue to operating expenses

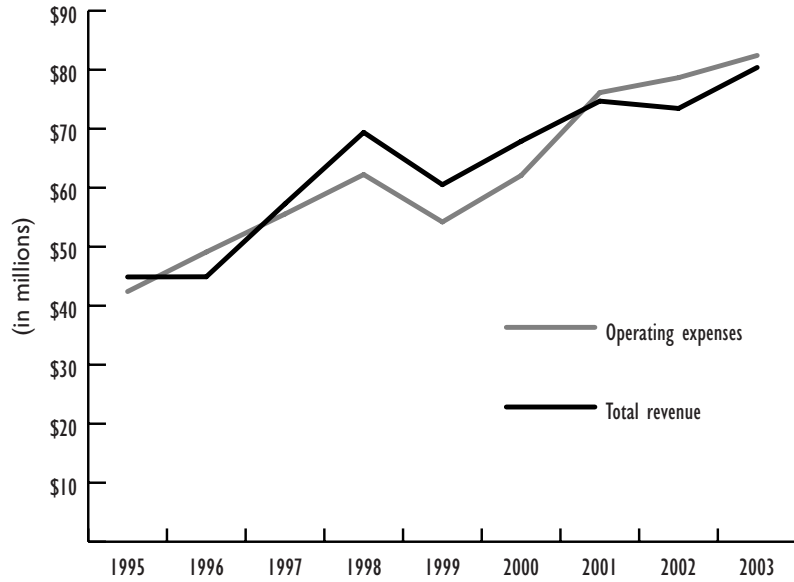
1995–2003
 $y = -0.0075x + 15.412$
 $r^2 = .1175$

1999–2003
 $y = 0.0337x - 67.072$
 $r^2 = .9098$



The ratio of earned revenue to total operating expenses is a measure of self-sufficiency similar to earned revenue to total revenue, but more meaningful. Few arts organizations meet their operating expenses at the turnstile and other event-related activities. This chart shows that Nashville's arts organizations suffered a substantial drop in self-sufficiency in 1999. The good news is that self-sufficiency has increased steadily since that time to the point where it has been restored to pre-1999 levels. In 2003, Nashville's arts groups covered 52.0% of their operating expenses from their earnings. The bad news is that even when contributions are added in, they still do not meet their expenses. As a whole, Nashville's arts organizations have not been able to generate a surplus since the year 2000.

Figure 16 – Revenue compared to operating expenses

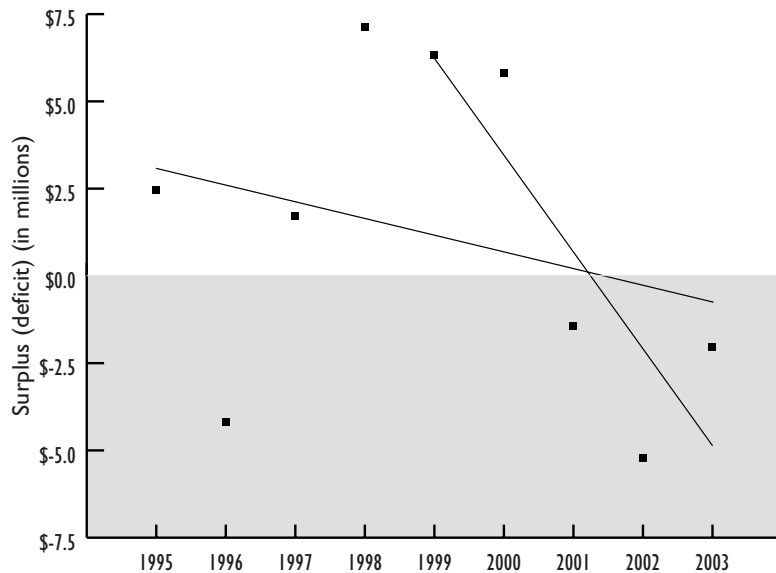


This chart clearly shows the interplay between total revenue and total operating expenses over time. Nashville's arts organizations as a whole generated a surplus in all years except 1996, 2001, 2002, and 2003, when deficits were reported. See Figure 17 for more detail.

Figure 17 – Operating surplus (deficit)

1995–2003
 $y = -0.4798x + 960.38$
 $r^2 = .0802$

1999–2003
 $y = -2.7728x + 5549.1$
 $r^2 = .7347$

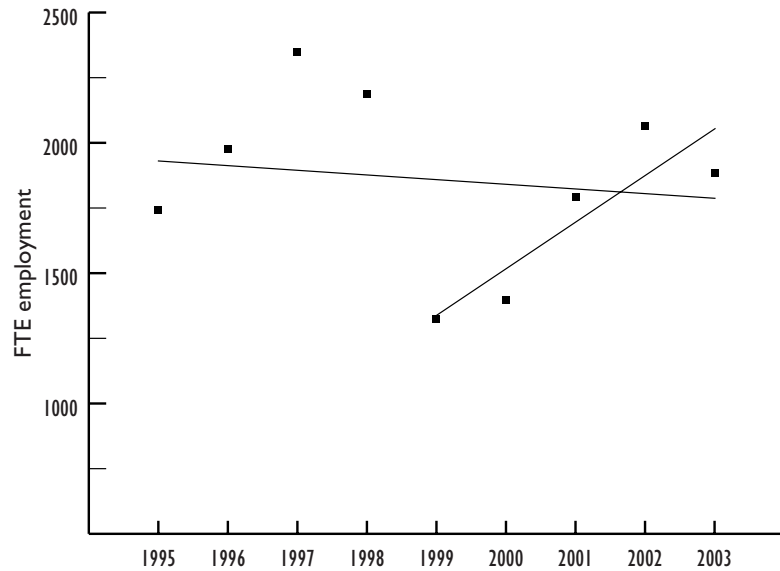


It is encouraging that the deficit for 2003 is significantly less than the deficit reported in 2002. However, any deficit threatens the financial viability of organizations that do not have adequate reserves to cover the loss. It is imperative that Nashville's arts organizations return to black ink in order to retain high quality in their cultural offerings. Data scattering is pronounced over the nine-year time frame because of variability in both total revenue and total operating expenses from year to year.

Figure 18 – Total full-time-equivalent employment dependent on the arts

1995–2003
 $y = -17.833x + 37506$
 $r^2 = .0208$

1999–2003
 $y = 178.2000x - 354885$
 $r^2 = .7825$

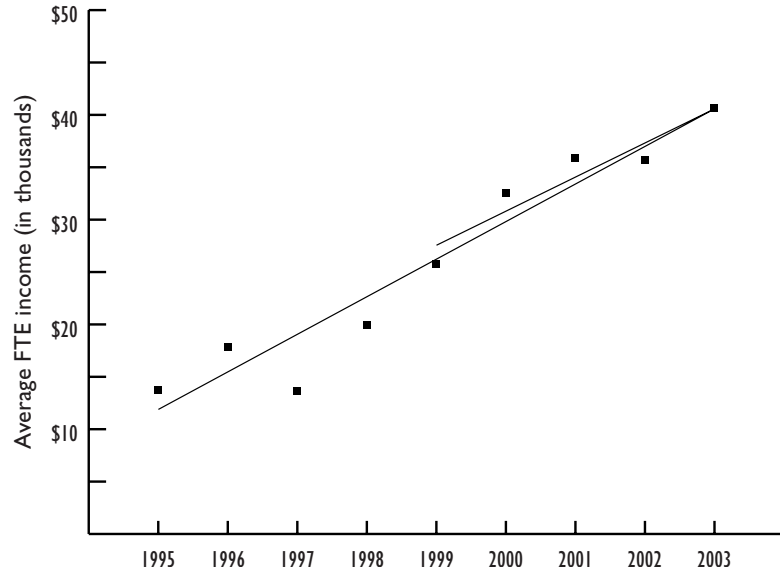


Total full-time-equivalent (FTE) employment has varied considerably from year to year due to budgetary restraints and differences in the number of arts organizations that participate in the study. This figure exhibits a familiar pattern: a significant drop in employment in 1999 and a steady increase since that time. Figure 27 shows a loose negative correlation between FTE employment and the number of volunteers who contribute their time and effort to the arts. A factor that may account for rising FTE employment in the face of difficult economic times is a dwindling pool of volunteers.

Figure 19 – Average annual income for individuals directly employed by arts organizations

1995–2003
 $y = 3636.5x - 7243203$
 $r^2 = .9287$

1999–2003
 $y = 3285.3x - 6539747$
 $r^2 = .8979$

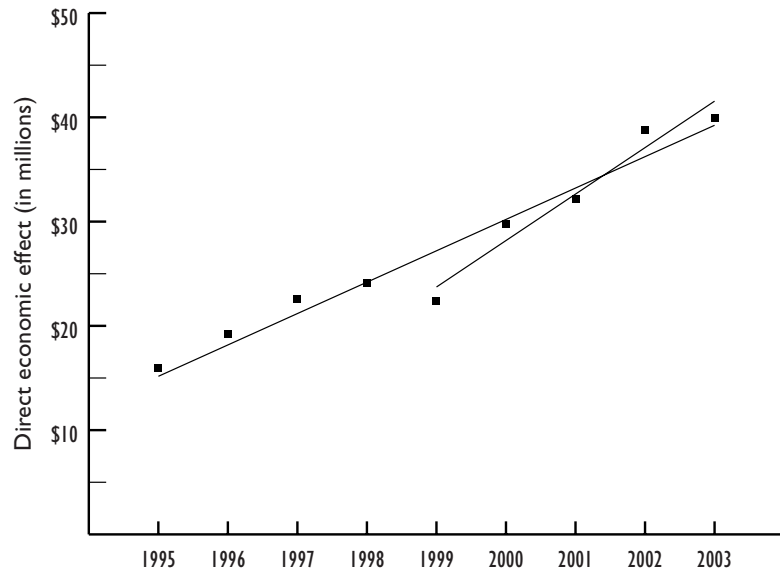


Notwithstanding variations in FTE employment and financial factors over the years, there has been a steady increase in average income earned by those who have been directly employed by Nashville arts organizations.

Figure 20 – Direct economic effect (personal income)

1995–2003
 $y = 2.9929x - 5955.6$
 $r^2 = .9377$

1999–2003
 $y = 4.4270x - 8825.9$
 $r^2 = .9514$

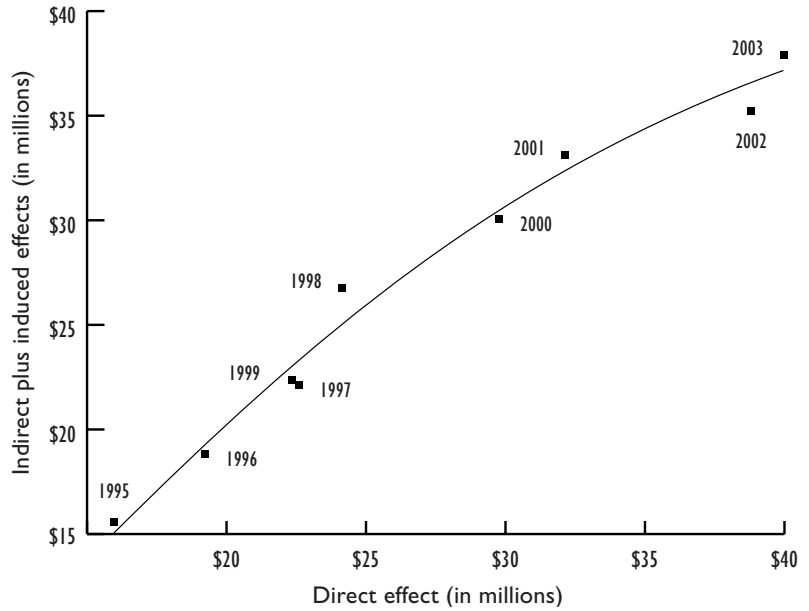


The direct economic effect in terms of personal income is the payroll of Nashville arts organizations plus compensation paid directly by these organizations to Nashville residents for contracted services. This chart reflects the results given in Figures 18 and 19. The compound annual growth rate for the direct economic effect of personal income since 1995 is 12.2%.

Figure 21 – Correlation between indirect plus induced effects and direct effects

$$y = -0.0190x^2 + 1.9822x - 11.752$$

$$r^2 = .9818$$

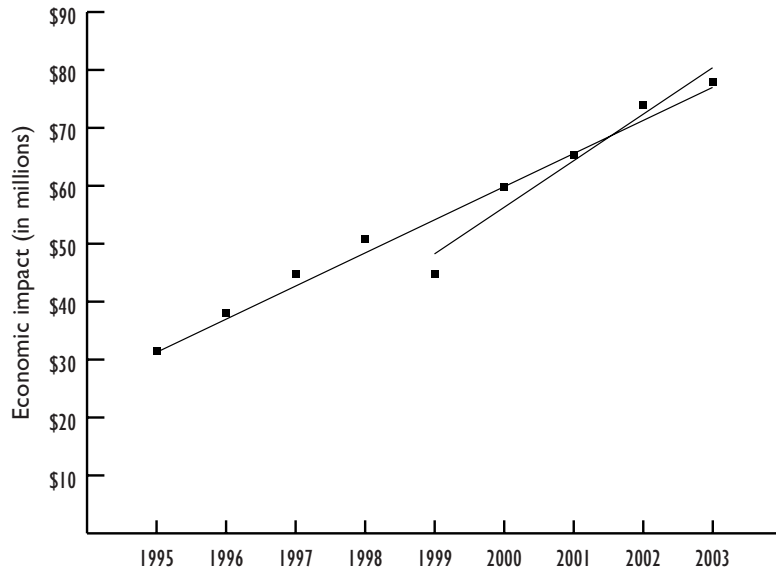


The indirect effect (personal income from jobs supported by expenditures within the MSA by Nashville arts organizations) and the induced effect (personal income from jobs supported by local spending by individuals employed directly and indirectly) are determined by IMPLAN. This chart indicates that direct personal income has increased at a slightly higher rate than the sum of indirect and induced personal income.

Figure 22 – Economic impact (personal income)

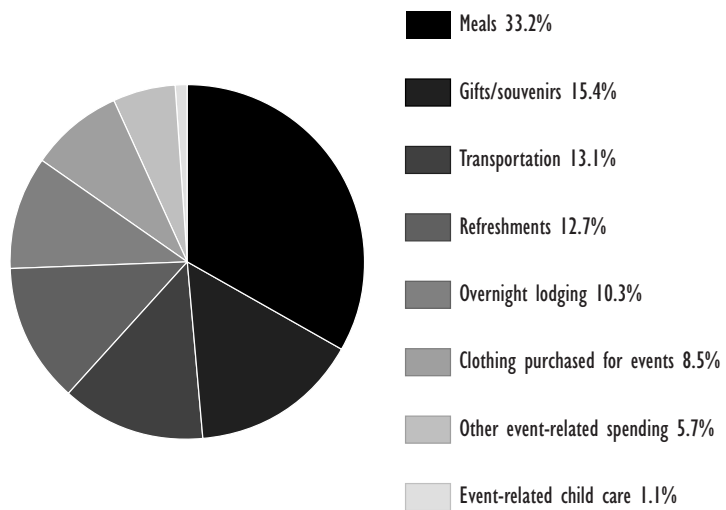
1995–2003
 $y = 5.7196x - 11379$
 $r^2 = .9477$

1999–2003
 $y = 8.0463x - 16036$
 $r^2 = .9485$



Except for the year 1999, the economic impact of the arts in terms of direct, indirect and induced personal income has risen steadily since 1995. The increase from 2002 (\$74.0 million) to 2003 (\$77.9 million) is 5.2%. The compound annual growth rate from 1995 is 12.0%; from 1999 the CAGR is 14.9%.

Figure 23 – Breakdown of ancillary spending



This pie chart shows a general breakdown of ancillary spending by arts-event audiences, as reported in *Arts & Economic Prosperity* (see Selected Bibliography on page 36). The breakdown varies from city to city, so the breakdown for Nashville could be somewhat different.

Figure 24 – Correlation between the economic impact of ancillary spending and attendance

$$y = 0.7636x^2 + 12.471x$$

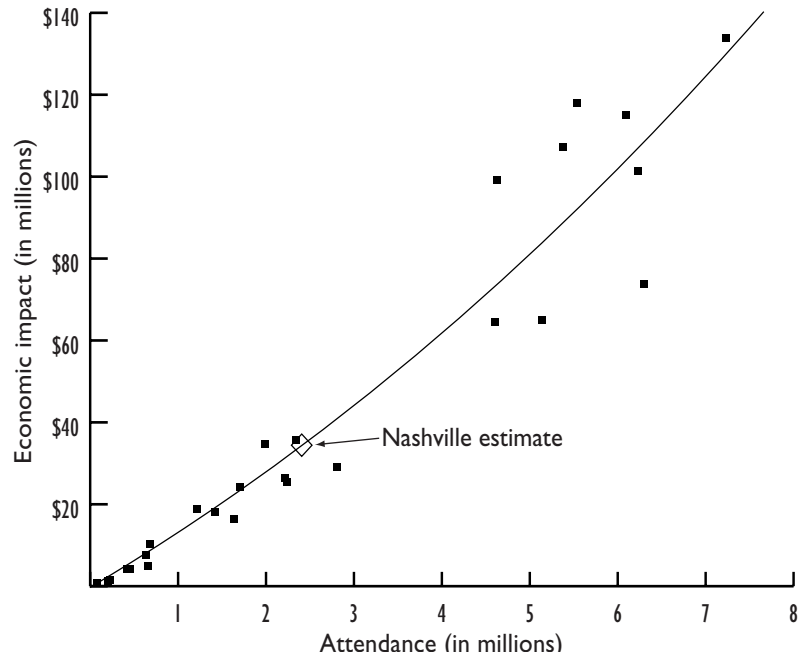
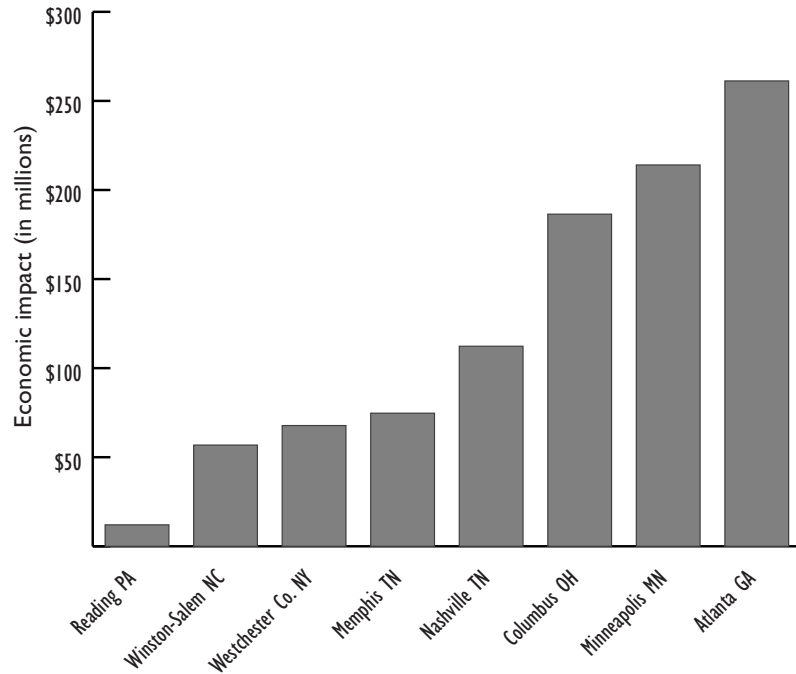


Figure 24 correlates the economic impact in terms of personal income of audience ancillary spending with attendance at arts events for the twenty-six cities listed in Exhibit 1 (see page 32). Exhibit 1 also shows how estimates for ancillary spending and its economic impact in 2003 were computed for Nashville. Given attendance reported to be 2.4 million in 2003, ancillary spending was computed to be \$58.9 million, with an economic impact in terms of personal income of \$34.4 million. This last figure is \$4.2 million higher than the estimate for 2002 as a result of higher attendance. (Data scattering increases as attendance numbers increase because variation is proportional to attendance. This condition causes the calculation of r^2 to be unreliable, thus this measure of variation is omitted.)

Figure 25 – Comprehensive economic impact by city (personal income)

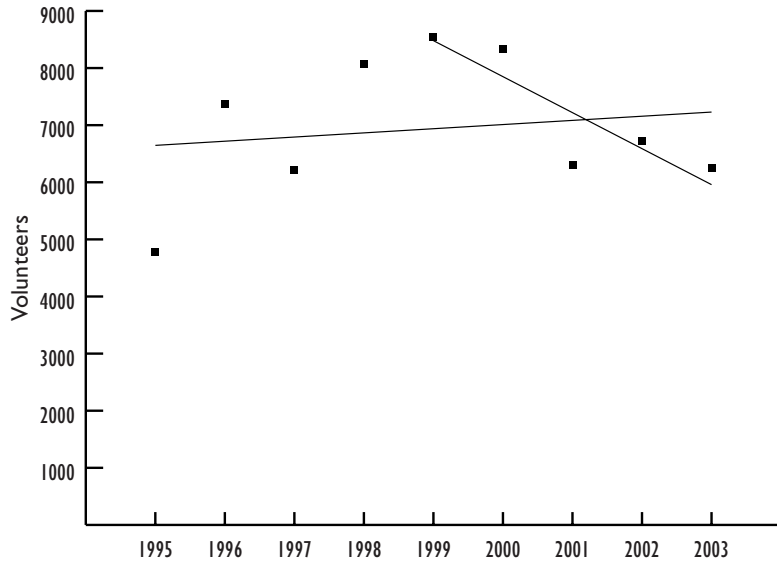


The comprehensive economic impact of personal income is the personal income derived from arts-group operations combined with the personal income derived from ancillary spending by audiences. That figure is \$112.3 million for Nashville. Figure 25 shows how Nashville compares with other cities as reported by the Americans for the Arts study, in terms of comprehensive economic impact from nonprofit arts activities.

Figure 26 – Number of volunteers

1995–2003
 $y = 71.733x - 136442$
 $r^2 = .0256$

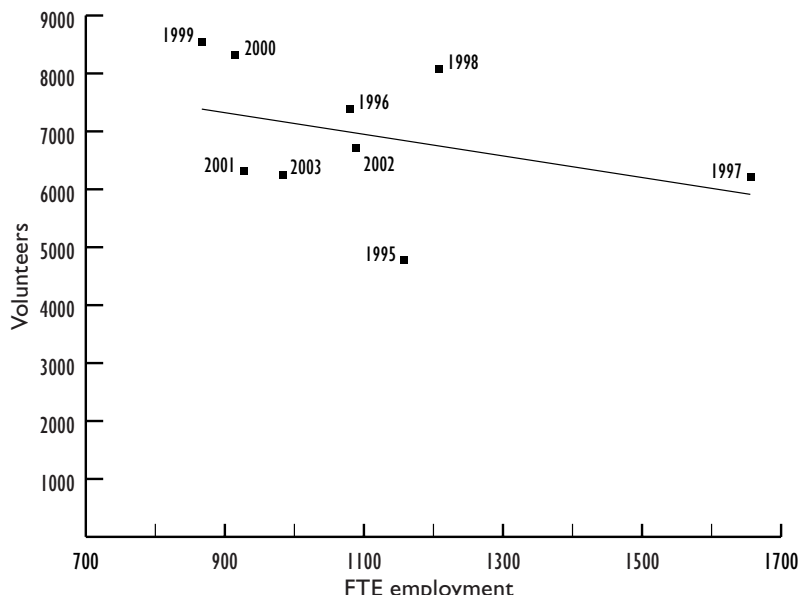
1999–2003
 $y = -618.30x + 1244443$
 $r^2 = .7633$



The number of volunteers who give their time and effort to Nashville arts groups peaked in 1999 and has dwindled ever since. The reasons for this decline are not well understood. However it appears that there has been growing competition for volunteers by all nonprofit organizations as fewer individuals have looked for volunteer work in recent years.

Figure 27 – Correlation between volunteers and direct FTE employment

$y = -1.8651x + 9001.3$
 $r^2 = .1319$

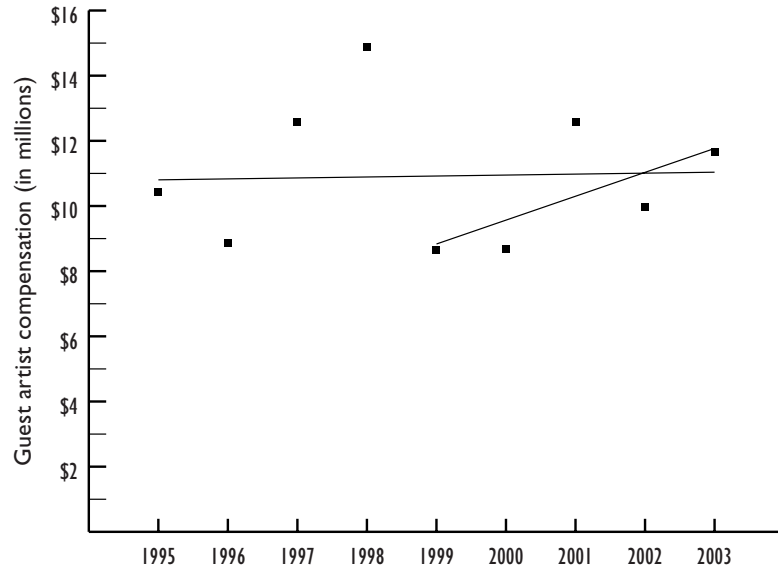


This chart exhibits a very high degree of data scattering. Although the trend line makes sense (i.e., the number of volunteers is negatively correlated with FTE employment), this chart could be misleading because the trend line is highly influenced by a single data point (1997) that lies outside a cloud of data. Figure 27 may not in fact demonstrate a reliable relationship between the number of volunteers and FTE employment.

Figure 28 – Guest artist compensation

1995–2003
 $y = 0.0315x - 51.973$
 $r^2 = .0016$

1999–2003
 $y = 0.7335x - 1457.4$
 $r^2 = .4296$

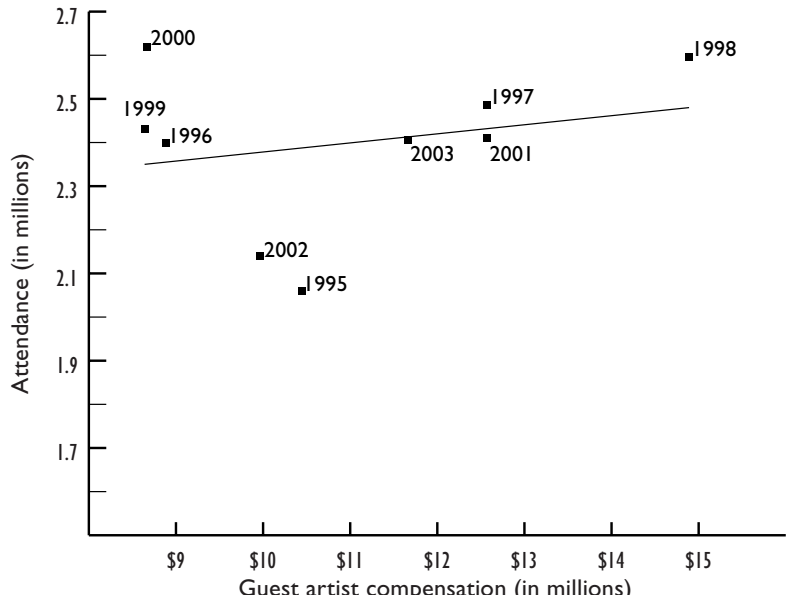


Although the trend line from 1999–2003 is positive, the trend line over the entire study period (1995–2003) is flat. So, it appears that Nashville arts organizations have generally held the line on what they are willing to spend for guest artists. Nevertheless, there has been significant variation in guest-artist fees paid from year to year. This variation invites a number of questions: Do “name” guest artists draw larger audiences? Are audiences willing to pay a premium for name guest artists? Does it make economic sense for arts groups to pay premium fees for name guest artists? See Figures 29, 30, and 31 for answers.

Figure 29 – Correlation between attendance and guest artist compensation

$$y = 0.0214x + 2.1605$$

$$r^2 = .0615$$

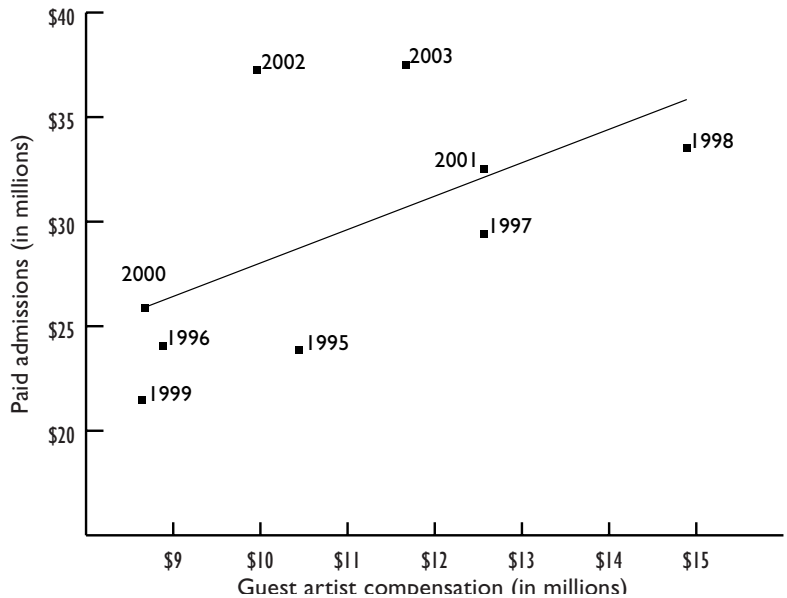


This chart shows that spending more for guest artists has little effect on attendance, which should not be surprising from viewing the flat trend line of attendance at arts events, illustrated in Figure 1.

Figure 30 – Correlation between paid admissions and guest artist compensation

$$y = 1.6001x + 12.0198$$

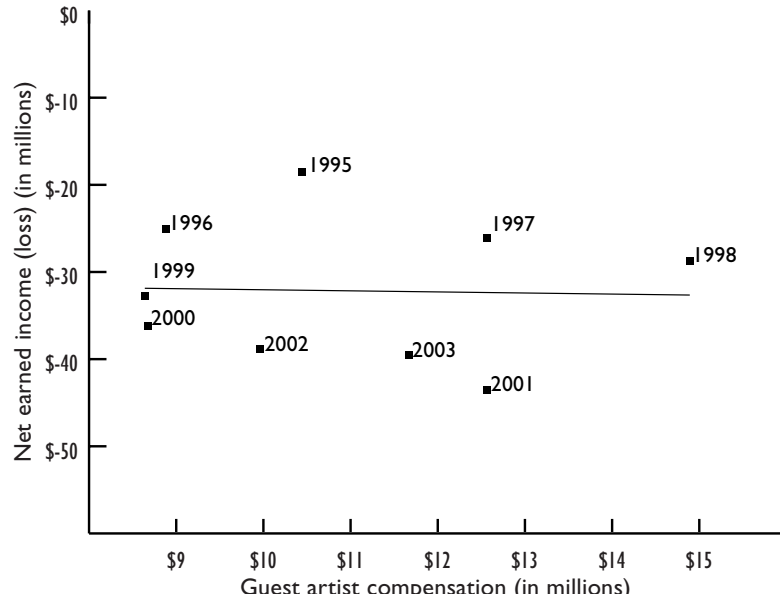
$$r^2 = .3309$$



Since attendance has remained relatively flat over the study period, premium ticket prices would account for increased paid admissions as guest artist compensation rises. Despite a high degree of data scattering, there is evidence that Nashville audiences are willing to pay a premium ticket price for “name” guest artists who command relatively high fees.

Figure 31 – Correlation between earned income and artist compensation

$$y = -0.1257x - 30.7771$$
$$r^2 = .0011$$



This chart suggests that paying premium fees for “name” guest artists does not have a reliable impact on net earned income (i.e., earned revenue less operating expenses). Notwithstanding this result, an arts organization may reasonably include well-known guest artists in its lineup as a strategy to draw audience interest. But it should be understood that this strategy is not without economic risk. The greater risks associated with the trend away from subscription sales toward single-ticket sales call for very careful programming and effective marketing along with a strategic view toward audience building.

Conclusions drawn from the trends for general economic indicators

The central theme that emerges from these charts is that Nashville's arts organizations appear to be recovering in many ways from the onslaught of professional sports in 1999 that raised the bar on competition for the entertainment dollar. The year 2003 marked the highest level of paid admissions, contributions, and economic impact in terms of personal income from the arts since 1995. Despite the good news, it is evident that earned revenue and contributions have not kept pace with the rising costs associated with the kind of quality productions Nashville audiences expect. When looked at as a whole, the city's arts groups have operated at a deficit for the past three years. The question then is whether Nashville's arts organizations and their supporters can find ways to avoid red ink or whether our community will suffer a loss of cultural offerings in the years ahead.

The far-reaching impact of the arts

Nashville has come far in building a robust arts community. Local arts groups now offer an array of high-quality programming – from visual arts to ballet, theater, music, and crafts. Their contribution to the Metro Nashville economy also continues to grow, as this study of economic impact demonstrates.

Equally important is the significant commitment of arts organizations to K-12 education and underserved populations in the greater Nashville area. Area arts groups offer children direct exposure to and experience with the arts and bolster the arts curriculum available in schools.

Of the 60 surveyed arts organizations, 46 (77%) indicated that their programs educate K-12 students. Of these arts organizations, 20 (44%) gear more than 40% of their programs to K-12 students, and 17 (37%) allocate more than 40% of their budgets to K-12 education. This is indeed a significant contribution by arts organizations to our children's future.

Furthermore, 60% of the surveyed arts organizations reported that targeting underserved groups in the greater Nashville area is part of their mission. These underserved groups are defined as aging Americans, children and youth, people of color, people with disabilities, and those in rural and isolated settings.

So with increased momentum of community-wide support Nashville is poised to be one of those winning 21st-century cities that educates and enlightens all of its citizens, retains its most talented ones with a rich cultural life and attracts the type of creative newcomers who are the engine of economic growth.

Exhibit I – Audience spending related to arts events^{6,7}

Population (1000s)	City	Arts event attendance	Direct, indirect & induced effects	Total audience spending	Audience economic impact	Total economic impact	
100-249	St. Petersburg FL	2,339,949	\$23,657,000	\$61,024,700	\$35,631,000	\$59,288,000	
250-499	Anchorage AK	679,409	7,995,000	19,292,736	10,266,000	18,261,000	
	Northampton County PA	2,233,201	12,234,000	48,501,776	25,538,000	37,772,000	
	Newark NJ	1,421,451	40,460,000	29,714,722	17,998,000	58,458,000	
	Winston-Salem NC	1,640,428	40,298,000	27,010,352	16,510,000	56,808,000	
	Lehigh County PA	1,218,651	9,858,000	31,731,235	18,736,000	28,594,000	
	Western Maricopa County AZ	81,788	1,792,000	1,332,870	853,000	2,645,000	
	Waukesha County WI	223,101	6,578,000	2,458,908	1,429,000	8,007,000	
	Reading PA	448,983	7,950,000	7,656,013	4,089,000	12,039,000	
	Minneapolis MN	5,141,717	148,998,000	98,179,235	65,040,000	214,038,000	
	Mesa AZ	658,164	8,847,000	7,898,949	4,901,000	13,748,000	
	Jefferson Parish LA	631,963	2,776,000	13,104,890	7,640,000	10,416,000	
	Union County (Elizabeth) N.J	207,864	13,370,000	2,511,517	1,361,000	14,731,000	
	500-999	Monmouth County N.J	413,015	3,855,000	8,023,911	4,179,000	8,034,000
		Memphis TN	1,990,526	40,061,000	54,159,505	34,645,000	74,706,000
Columbus OH		6,228,228	85,082,000	159,003,298	101,338,000	186,420,000	
Indianapolis IN		4,622,172	131,560,000	146,083,931	99,209,000	230,769,000	
Atlanta GA		7,226,111	127,393,000	193,899,104	133,818,000	261,211,000	
Honolulu HI		4,602,098	55,218,000	113,462,333	64,552,000	119,770,000	
>1000	Westchester County NY	1,707,891	43,461,000	37,398,560	24,307,000	67,768,000	
	Phoenix AZ	5,379,173	71,787,000	173,066,769	107,297,000	179,084,000	
	St. Louis MO	6,096,961	205,986,000	191,764,056	114,976,000	320,962,000	
	Northeast Tarrant County TX	2,804,467	8,248,000	50,171,915	29,107,000	37,355,000	
	Ft. Lauderdale FL	2,217,531	49,882,000	47,130,162	26,384,000	76,266,000	
	San Diego CA	5,533,404	95,594,000	203,264,339	117,944,000	213,538,000	
	Houston TX	6,295,192	155,732,000	124,954,714	73,879,000	229,611,000	
	Minimum		81,788	\$1,792,000	\$1,332,870	\$853,000	\$2,645,000
	Average		2,770,901	\$53,795,077	\$71,261,558	\$43,908,731	\$97,703,808
	Maximum		7,226,111	\$205,986,000	\$203,264,339	\$133,818,000	\$320,962,000
Nashville		2,406,000 ⁸	\$77,872,000 ⁹	\$58,887,149 ¹⁰	\$34,423,175 ¹¹	\$112,295,175	

6 In terms of personal income

7 *Arts & Economic Prosperity – the Economic Impact of Nonprofit Arts Organizations and Their Audiences* (Americans for the Arts, 1000 Vermont Avenue NW, 12th Floor, Washington DC 20005, 2002). www.americansforthearts.org. Used with permission.

8 Determined from survey data.

9 Determined by IMPLAN analysis of survey data

10 Computed by quadratic regression where:

$$x = \text{attendance}$$

$$y = 0.7274x^2 + 22.725x$$

11 Computed by quadratic regression where:

$$x = \text{attendance}$$

$$y = 0.7636x^2 + 12.47x$$

Exhibit 2 – Summary table of inputs

	Total Expenditure	Inside Metro	Outside Metro	Percent Outside Metro
Reported expenditure categories				
Total in-house staff payroll	\$37,700,303	\$37,478,721	\$221,582	0.59
Payroll for contracted arts services – individuals	\$2,839,462	\$2,502,096	\$337,366	11.88
Payments for contracted arts services – businesses	\$8,825,797	\$2,994,393	\$5,831,404	66.07
Other personnel supply services (e.g., temporary workers)	\$478,437	\$478,437	\$0	0
Professional fees (e.g., legal, accounting, etc.)	\$1,556,881	\$1,317,507	\$239,374	15.38
Computer and data processing services (e.g., web site design)	\$607,086	\$603,809	\$3,277	0.54
Travel	\$829,900	\$589,695	\$240,205	28.94
Facilities and related items	\$3,821,867	\$3,821,115	\$752	0.02
Utilities	\$1,795,462	\$1,795,462	\$0	0
Materials and supplies – office	\$619,675	\$612,044	\$7,632	1.23
Materials and supplies – all other	\$2,020,639	\$1,997,807	\$22,831	1.13
Rental and leasing (includes exhibit leasing and licensing fees)	\$1,756,114	\$1,024,650	\$731,464	41.65
Telecommunications (telephone, cable access, etc.)	\$601,606	\$600,643	\$963	0.16
Postage, shipping, and freight	\$577,052	\$554,857	\$22,195	3.85
Publicity and advertising	\$3,876,038	\$3,782,907	\$93,131	2.40
Printing	\$1,093,173	\$1,091,396	\$1,777	0.16
Insurance (other than employee coverage)	\$841,277	\$762,092	\$79,185	9.41
Interest on debt	\$1,421,085	\$1,421,085	\$0	0
Sales and property taxes	\$150,195	\$150,195	\$0	0
Total (1)	\$71,412,049	\$63,578,910	\$7,833,139	10.97
Plus other expenditures				
Other expenditures one	\$8,254,130	\$8,208,990	\$45,140	0.55
Other expenditures two	\$2,904,025	\$2,901,496	\$2,529	0.09
Total other expenditures (2)	\$11,158,155	\$11,110,486	\$47,669	0.43
Grand total expenditures (1 + 2)	\$82,570,204	\$74,689,396	\$7,880,808	9.54
Less sales and property taxes	\$150,195	\$150,195		
Total expenditure for goods and services	\$82,420,009	\$74,539,201	\$7,880,808	9.56
Capital expenditures	\$12,368,352	\$12,368,352	\$0	0

Participating cultural organizations

Abintra Montessori School
ACT I (Artists' Cooperative Theater 1)
Acholi Sudanese Cultural Association
Actors Bridge Ensemble Theatre of Nashville
American Institute of Architects, Middle TN
Arts in the Airport Foundation
Belcourt YES!
Belmont Mansion
Blair School of Music, Vanderbilt University
Cheekwood Botanical Garden and Museum of Art
Discovery Center at Murfree Spring
Country Music Hall of Fame and Museum/Foundation
Cumberland University Fine Arts Dept./Arts Academy
Family and Children's Service/Lifework Productions
Friends of Tennessee Art League
Frist Center for the Visual Arts
Global Education Center
Handweavers Guild of Nashville
Hendersonville Arts Council
Historic Watertown
Humanities Tennessee
The Hermitage/Ladies Hermitage Association
Lakewood Theatre Company
Live Music in America
Main Street, Murfreesboro/Rutherford Co.
Metro Parks and Recreation, Arts Program
Metro Nashville Arts Commission
Mockingbird Public Theatre
Music City Blues Society
Nashville Ballet
Nashville Calligraphers Guild
Nashville Chamber Orchestra
Nashville Children's Theatre
Nashville Cultural Arts Project
Nashville Film Festival
Nashville Opera Association
Nashville Shakespeare Festival
Nashville Symphony
Nashville Symphony Guild
O'More College of Design
Parthenon Patrons
People's Branch Theatre
RUBY GREEN Foundation
Scarritt-Bennett Center/Celebration of Cultures
St. Clair Street Senior Center
Stones River Crafts Association
Tennesseans for the Arts
Tennessee Art League
Tennessee Arts Commission
Tennessee Association for the Preservation & Perpetuation of
Storytelling (TAPPS)
Tennessee Association of Craft Artists

Tennessee Performing Arts Center
Tennessee Repertory Theatre
Tennessee State Museum
Travellers Rest Plantation and Museum
Vanderbilt University Fine Arts Gallery
Vanderbilt University, Sarratt Student Center
Village Cultural Arts Center
W.O. Smith Nashville Community Music School
Watkins College of Art & Design

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Study team

The Business and Economic Research Center in the Jennings A. Jones College of Business at Middle Tennessee State University and the Metro Nashville Arts Commission administered the survey process in this research study. The principal researcher for MTSU was Dr. Murat Arik. Management Consultant David Sampsell assisted with the study and prepared the trends and correlations analysis and the estimation of ancillary spending. Teri McElhaney of the MNAC managed the study project, and Taylor Holliday edited the report and wrote the executive summary. Richard Mitchell designed the full study report. Communications Manager Brian Courtney guided the publication process for the Nashville Chamber of Commerce, which produced the *Arts & the Economy 2003: Executive Summary* that was designed by Christopher Wilkins.



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Teri McElhaney, ADA Compliance Coordinator
Metro Nashville Arts Commission
Cummins Station, Suite 416
209 10th Avenue South
Nashville TN 37203-0772
(615) 862-6720
TTY Relay Service 800-848-0298