How Are Museums Supported Financially in the U.S.?

By Ford W. Bell

The line forms at the Metropolitan Museum of Art in New York. ©*AP Images*

"The majority of museums in the United States are nonprofits."

If you were to walk up to the typical U.S. museum director and ask, "How are American museums funded?" you would get a simple, straightforward answer.

"Precariously."

Unlike the model found in most of the world, where museums are largely supported by the national government, American museums keep their operations going by cobbling together a mosaic of funding sources, from government sources, from the private sector and, increasingly, from earned income.

Like most cultural institutions — orchestras, theater groups, ballets, etc. — the majority of museums in the United States are nonprofits. Under U.S. law, that exempts museums from a significant tax burden. Imagine if the Metropolitan Museum of Art in New York City were forced to pay property taxes on its fabulous Fifth Avenue edifice. That figure would stagger the mind.

But nonprofit status also means that museums must stitch together sustainable revenue streams from a range of sources, while being as much at the whim of the marketplace as for-profit enterprises. Witness the economic downturn from which we seem to be emerging in the spring of 2012. Museums and all American nonprofits were hit hard by the Great Recession of 2008. The bad economy forced museums to display their entrepreneurial side, cutting here, re-adjusting there, creating new

A Mattel designer explains a corporate-sponsored Cars exhibit at the Peterson Automotive Museum in Los Angeles. ©*AP Images*

revenue streams in order to sustain and grow their institutions.

At the American Association of Museums, we have over the years compiled data into the funding sources of American museums. Broadly defined, the four main categories of museum funding are government grants, private donations, earned revenue and investment income. Let me explain each briefly.

Government support comes from agencies at all levels — federal, state and local. As you see from the accompanying graph, the typical U.S. museum derives just over 24 percent of its operating revenue from such sources. Over the years, the bulk of this has come from state and local governments, with a small percentage coming from the federal level. This revenue stream is trending downward; in 1989, the average U.S. museum received 38 percent of its funding from government sources.

The largest share of museum operating revenue (38 percent) comes from donors in the private sector. This is defined as individuals, charities and philanthropic foundations, as well as corporate sponsors. Often these funds are pegged to a particular exhibition or initiative, frequently focused on education. (U.S. museums invest more than $2 billion annually in education programs.)

The third operating revenue segment is commonly referred to as earned revenue. This is defined as those revenues resulting directly from museum exhibitions, programs, retail sales or rentals. Admission fees are included in this category, although such fees account for a very small percentage of museum revenue — generally around 5 percent. Many find this surprising, but it is understandable considering that the average admission price for a U.S. museum is just $7, and 37 percent of American museums offer free admission.

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Washington's National Portrait Gallery's courtyard is rented for events. *Adam Fagen*

This segment of museum revenue also encompasses income from gift shops, bookstores and restaurants. A trend among American museums is to upgrade the offerings in these venues, with the goal of increasing revenue. A number of large U.S. institutions have added top-flight restaurants, some managed by notable chefs. The strategic approach behind these investments is to make the museum restaurant a destination in itself, thus helping to create additional community connections to the museum.

Another growth area in this revenue stream is rentals. Often, U.S. museums boast the most impressive structures in town, inside and out. Museums have been able to capitalize on this important asset, renting out space for corporate gatherings, ceremonial occasions and even weddings. The average U.S. museum draws 27 percent of its revenue from earned income.

The fourth revenue category is investment income. The largest U.S. museums have endowments. For art museums, these are largely committed to acquiring new works for the collection. The standard for our museums is that 5 percent of the endowment is available for spending each year, with the remaining 95 percent invested in a range of securities, bonds and other financial instruments that are selected to (directors hope) ensure the continued growth of the endowment. As you can imagine, investment income was hard to come by for many museums in the period between late 2007 through early 2010.

On average, U.S. museums derive nearly 12 percent of revenue from investments.

Given the revenue streams outlined above, one can see how the Great Recession had a significant impact on American museums. In many ways it was a perfect storm of economic calamity: a tumbling stock market that reduced the wealth of the corporate and philanthropic foundations, making them less able to contribute to museums; a similar decline in museum endowments; the overall economic trough, resulting in reduced museum memberships; and, perhaps most important, the drop in tax receipts that forced state and local governments to make draconian budget cuts, with museums and nonprofits first on the chopping block.

A 2010 American Association of Museums survey on museums and the economy found that fully two-thirds of U.S. institutions reported suffering moderate to severe financial stress. A similar survey published in March 2012 found that number had declined slightly, to just over half. This is obviously not a dramatic improvement, but we are headed in the right direction. And while the economy continues to improve, American museum leaders will continue to be creative and entrepreneurial in ensuring the financial stability of their institutions.

Ford W. Bell has served as the president of the American Association of Museums since 2007. He is a board-certified veterinary oncologist and credits museums for his lifelong love of nature and science. *Courtesy Photo/AAM*

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