Arts endowments are worth millions. So why can’t organizations draw on them to survive the pandemic?

J. KELLY NESTRUCK AND **KATE TAYLOR**

PUBLISHED MAY 14, 2021

FOR SUBSCRIBERS

It’s been one of the toughest years ever for Canada’s premier cultural institutions. In Toronto, the century-old Royal Ontario Museum shut its doors because of COVID-19 and laid off some of its staff temporarily, while asking others to accept pay cuts.

The National Ballet of Canada, in turn, cut short its 2019-2020 season, cancelled 2020-2021 onstage performances and posted a $303,000 deficit for its most recent fiscal year.

Yet, at the charitable foundations that help fund those institutions, finances have rarely been better. Despite market turmoil at the start of the pandemic, the ROM Foundation’s endowment has climbed by 18 per cent, or about $10-million, over the past two years to almost $62-million as of March 31.

The National Ballet’s Endowment Foundation has done even better, rising in value by over 20 per cent in less than two years, to $95.4-million on March 31 from about $79-million on June 30, 2019.

It’s as jarring a gap in pandemic reality as the one between Main Street and Bay Street, or between the economy and the stock market: Seven of Canada’s biggest endowments for performing arts companies or museums have seen their combined assets rise to more than half a billion dollars in 2021 – even as the cultural institutions they support amassed record deficits, cancelled programming and freelance contracts, and turned to governments for unprecedented financial aid.

But for the most part, these endowments haven't been helping out during the pandemic any more than they usually do – disbursing just 5 per cent of their assets a year, or even less.

Shouldn't foundations with swelling balance sheets such as those of the ROM and the National Ballet be rushing to the rescue? Why aren't more of their hefty stock market returns trickling down to prevent layoffs or deficits in these troubled times?

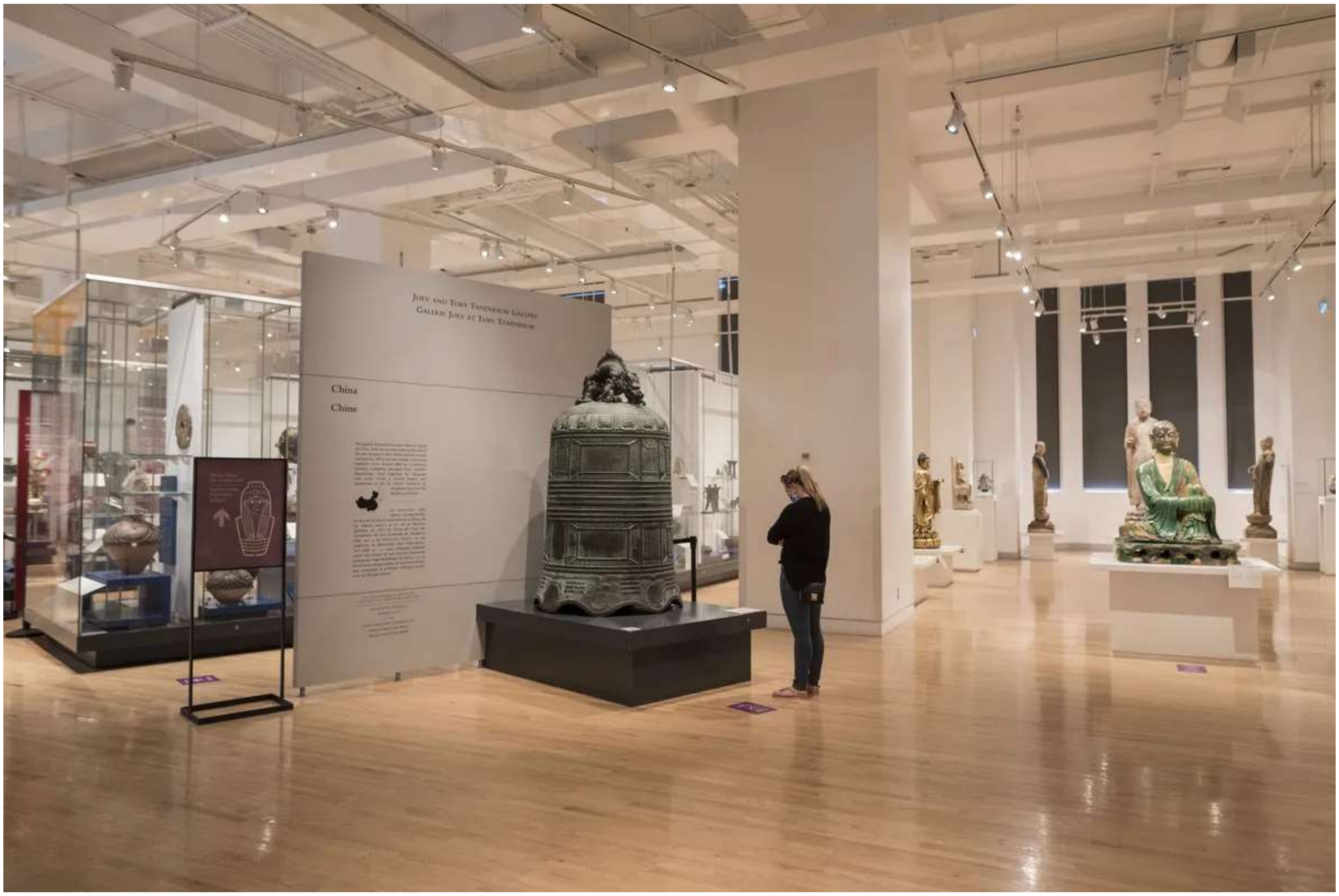
It's a more complex issue than it might seem at first.

From the ballroom to cyberspace: Arts organizations pivot to online fundraising galas

Increase the Grants, a national advocacy group that argues that "delayed good is less good," says foundations should indeed be spending more – and Ottawa should require them to do so by raising what's known as the annual disbursement quota (DQ). It has been set at a minimum of 3.5 per cent of the value of a charity's assets since 2004, but Increase the Grants says it should be raised much higher, to somewhere between 7 per cent and 10 per cent.

However, arts administrators say the public must understand that their endowments are not "rainy day funds," and they have to keep annual draws low to guarantee sustainable support far into the future.

“It’s not just rainy days, [it’s] all days, sunny days,” says Josh Basseches, director and CEO of the ROM, which, in addition to its $61.8-million endowment, benefits from the independent $90-million Louise Hawley Stone Trust.



'Endowments give you stability; it’s critical and allows you to plan,' says Josh Basseches, director and CEO of the Royal Ontario Museum.

TIJANA MARTIN/THE GLOBE AND MAIL

Rules and restrictions

The ROM Foundation and its counterparts are governed by strong rules and have separate boards of directors from the institutions they support. The split helps resist the temptation for short-term financial thinking.

In theory, this leads to a never-ending, reliable income stream in sectors where box office revenue is always a gamble, a switch in governments could change arts policy in an instant and the wealthiest donors can cut off sustained support on a whim. Says Basseches: “Endowments give you stability; it’s critical and allows you to plan.”

What endowments do less well, however, is help with the unforeseen – such as a complete pivot away from your main cultural mission to simply trying to keep the lights on.

Many donations to foundations also come with strings attached that designate their income for specific purposes, whether buying art, training young artists or commissioning new plays – pandemic or no pandemic.

At the Banff Centre for the Arts last year, administrators wanted to reallocate endowment earnings earmarked to specific programs – then on pause – to operations. But to do that, they had to reach out to each individual donor to ask permission.

A total of 81 per cent of Banff donors said yes, but the move was controversial with a minority. Myra Davies, an artist who set up a memorial endowment in the 1980s to benefit writers from Western Canada, was offended by the request. ”My suggestion. Give the endowment proceeds directly to artists to work at home. Cut some cheques. They need it,” Davies wrote in an e-mail to the Banff Centre.

Matthew Loden, the CEO of the Toronto Symphony Orchestra, says the ideal gift to an endowment is unrestricted, but it’s often easier to raise funds for narrow aims. “We don’t have funds that are restricted to only performing Beethoven,” he notes. “We do have, within [our] endowment, funds that are restricted to support certain roles in the orchestra – like chairs of principal players.”

Strings attached or not, many institutions have chosen not to tap into endowment funds to the full extent their foundations allow. Instead, they’ve run operating deficits to pay artists and staff. It’s somewhat like a homeowner who wouldn’t crack into a registered retirement portfolio to fix a flooded basement, but would take out a cheap line of credit instead.

The Stratford Festival had to cancel its entire 2020 season and ran a record $4.3-million deficit, yet it avoided any appearance of taking money from artists. The organization drew $4.2-million from the Stratford Shakespearean Festival Endowment Foundation, but it kept $2.1-million that had strings attached into a spending account within the endowment to be used for its intended purposes over coming seasons. (The value of the endowment stood at $93.9 million in February.)

The plan is for the Festival to spend about $4-million from the endowment to produce a reduced season scheduled for this summer, and then $6-million when it hopes to be fully operational again in 2022. “I wanted to find a way to spread out the impact of the pandemic and to make resources available at a time when we would have a big volume of audiences coming back to us,” explains Anita Gaffney, Stratford’s executive director.

For the TSO's pandemic-interrupted fiscal year that ended June 30, 2020, it received $1.6-million from the Toronto Symphony Foundation – the maximum 5-per-cent draw set by the foundation. The TSO used all of that money for its intended purposes, as it still paid musicians. But it also ran a deficit of $676,113 for the 2019-2020 season, bringing its accumulated deficit to $3.3-million.

Similarly, the Canadian Opera Company chose to go $678,000 further into the hole in its fiscal year ended June 30, 2020, bringing its accumulated deficit to just over $3-million.

"While we could have taken an additional grant from our foundation to post a break-even season for 2019-2020, we made the prudent financial decision that year to post a deficit," the Toronto-based company said in a statement. "This path provided the opportunity for the endowment fund to recover losses experienced during the market crashes immediately following the declaration of a worldwide pandemic."

From a financial point of view, that turned out to be a good decision. Thanks to soaring stock markets, the Canadian Opera Company Endowment Foundation grew by 13 per cent from $37.4-million on June 30 last year to $42.4-million on March 31, 2021.

Along with the crises caused by the pandemic, rocketing private investment portfolios mean it's also an opportune time for cultural institutions to send out special appeals to wealthy donors – who may not be as generous down the line when a sense of urgency has dissipated. The big arts organizations say contributors have stuck by them despite the lockdowns that halted many programs and shows.

"Donors have been very responsive to our calls," said Yves Théoret, deputy director at the Montreal Museum of Fine Arts. "The question in the long run is: Will they be as responsive in years to come?"

And, of course, there are currently government COVID-19 relief and emergency programs to tap into.

But the arts organizations worry that the real financial crisis may be still around the corner – the year or two after the pandemic, as expenses get back to normal but audiences and visitors take their time to return. "We are not sure how our business model is going to recover," Théoret said.

Egyptian Mummies: Exploring Ancient Lives exhibit at the Montreal Museum of Fine Arts. 'We are not sure how our business model is going to recover,' said deputy director Yves Théoret.
MONTREAL MUSEUM OF FINE ARTS

Not as rich as you think

While the foundations that support Canada's big cultural institutions may seem rich from the perspective of smaller arts groups in the country, their endowments are still only big enough to top up an annual budget, rather than fund a major part of it.

Basseches at the ROM notes a comparable U.S. institution might have an endowment 10 times the size. There, investments worth hundreds of millions of dollars can underwrite a third or even half the annual budget. "These are comparatively small endowments compared to the United States," he says. "It has do with the different model. In the Canadian model you have this incredible federal and provincial support."

Another reason endowments are smaller in Canada, however, is that most of them are young. Many date back only to the turn of the century, when government policy began incentivizing their creation and, not coincidentally, cutting funding to arms-length arts councils. The 1990s ideology was that arts organizations might eventually support themselves, maybe without the help of government at all.

When the Progressive Conservative government in Ontario launched a "matching funds" program for arts endowments in the 1998, it was a controversial idea in this country – viewed in some corners as the Americanization or privatization of arts funding.

The concern was that such programs took decisions about public funding for the arts away from peer-juried entities such as the Ontario Arts Council and the Canada Council for the Arts, and put them in the hands of the rich.

But when the Liberal federal government began its own matching funds program for professional arts endowments through the Department of Canadian Heritage in 2001, those complaints became more muted.

Ontario's matching program, which probably accounts for why so many of Canada's biggest endowments are in that province, was quietly ended in 2007. On the other hand, the federal Endowment Incentives program recently celebrated its 20th anniversary, boasting it had "provided a total of $307-million in matching grants, leveraging private sector donations of $416-million, for a total of $723-million invested in 101 public charitable foundations and benefitting the long-term financial health of 276 professional arts organizations across Canada." (If those private sector numbers seem high, it's because, due to a hard cap on the program in some years, the so-called "matching ratio" has varied; it only "matched" 66.4 per cent in 2020-2021.)

Proponents and critics of establishing endowments in the last century might be surprised at how much public money has been funnelled into a program that ostensibly aims to help arts organizations become more self-sustaining. From 2001 to 2020, the foundations for the Stratford Festival and the National Ballet profited the most from the Endowment Incentives program, each receiving $16.3-million during that time from the Department of Canadian Heritage.

A matching program is, in fact, a second incentive to give money to a foundation; the first is a tax receipt for a charitable donation. This is why Increase the Grants feels the public should be taking more interest in how little many foundations spend on charitable activities annually – because much of it is taxpayers' money.

John Hallward, the charity executive who is leading the campaign, believes it is bad public policy to lock up today's tax dollars in foundations for future needs when the government might otherwise spend them on immediate public benefits – including societal problems exacerbated or caused by COVID-19.

Increase the Grants notes that charitable foundations as a whole in Canada have doubled their financial assets over the past six years from $40-billion to over $80 billion-dollars – an average annual gain of 12 per cent – while only being required to spend 3.5 per cent a year on charitable activities.

Hallward's argument to increase the DQ and immediately unlock billions a year for charities is gaining traction, with the recent federal budget including a line promising to hold consultations with charities to determine a new quota to take effect in 2022.

Many public foundations that support performing arts organizations and museums, however, fear too high a DQ might destabilize their investment policies – which can be more conservative than those of private foundations (which usually are funded by a single individual, family or corporation) that are the primary target of the Increase the Grants campaign.

The Stratford Festival foundation's investment policy, for instance, states its portfolio is expected to earn a real rate of return of 4 per cent after inflation, before investment management fees, over the long term. Indeed, its value has only increased from $88.5-million at the end of 2019 to $93.9-million at the end of February, a little over 6 per cent over that period. "Increasing the DQ to 4 per cent or 5 per cent seems reasonable," Gaffney wrote in an e-mail. "A larger DQ has the potential to erode the fund and diminish its effectiveness in the long term."

Still, it may still be a while before the rhetoric of endowments providing steady income truly matches up with the reality.

While federal tax law decrees that endowment foundations must pay out at least 3.5 per cent of their funds every year, if they have paid more than that in the past, they can carry disbursement excesses forward for five years.

After the stock market was walloped in 2008, some Canadians foundations stopped paying out entirely in order to focus on rebuilding their pot of money. The National Ballet of

Canada, for instance, was told not to expect any money that year. At a time of financial strain, the endowment was less generous rather than more generous.

Then there are instances of Canadian organizations in true mortal peril that have been able to find ways to get special funding from their foundations.

In 2001 and 2002, for example, former Ontario premier Bob Rae helped the Toronto Symphony Orchestra – which at the time had an accumulated deficit of more than $7-million – arrange what he called a "no bailout" rescue plan using endowment funds.

The TSO was permitted to draw $4-million from its foundation that year – after agreements were made with the Ontario and federal governments to repurpose endowment money that had originated with them.

The Globe and Mail reported at the time that the TSO was to pay back this money to the foundation at a later date. But the orchestra's current administration, which has no overlap with that time, could only confirm that $1.75-million had been paid back to the foundation. (There is some difficulty accessing detailed documents from that period during COVID-19.)

Has any organization reached out to repurpose Canadian Heritage funds given as matching funds during COVID-19? A spokesperson there replied only that "no special requests were granted during the pandemic."

Canada's big arts endowments

National Ballet of Canada

The biggest in Canada

- **History:** National Ballet of Canada Endowment Foundation established in 1999 with a gift of $100,000
- **Endowment:** $95.4-million as of March 31, 2021
- **Draw in 2020**: $3.7-million for the fiscal year ended June 30, 2020; $2.7-million (expected) for the year ending June 30, 2021
- **Typical disbursement rate:** Target of 4.5 per cent; maximum of 5 per cent

- **Restricted funds that could not be disbursed because of paused activities**: A planned 2020-21 spend of $900,000 for building live productions has been deferred to next year. However, most restricted funds could still be drawn to support dancers and orchestra.
- **Deficit:** $303,000 for the 2019-2020 season, which was cut short by the pandemic

Stratford Festival

Money for the reopening

- **History:** Stratford Festival Foundation established in 1997
- **Endowment:** $93.9-million market value as of Feb. 28, 2021, about half in restricted funds earmarked to areas such as training, new play development and gardens maintenance
- **Draw**: $4.2-million in 2020; $4-million in 2019
- **Typical rate:** 4.2 per cent
- **Restricted funds**: Half of the 2020 draw, or $2.1-million, could not be used due to restrictions and was placed in a spending account to be used for its original purposes as the festival reopens. Intention is to spend about $4-million of endowment funds for reduced season this year and $6-million for full season in 2022.
- **Deficit:** $4.3-million deficit in 2020, largest in its history. Forecasting similar deficit in 2021.

Art Gallery of Ontario

Business as usual

- **History:** Art Gallery of Toronto Foundation established in 1956 with endowment started same year
- **Endowment:** $84.4-million as of Dec. 31, 2020, but the foundation also holds another $23.5-million in assets, most of it restricted by donors' wishes but not committed to the endowment

- **Draw:** $2.8-million in 2020 from endowment (plus another $2.8-million from the foundation's other funds in spending on operations and acquisitions unrelated to the pandemic). In 2019, $2.7-million came from the endowment, but just $200,000 from the other funds.
- **Typical rate:** 4 per cent; unchanged during pandemic
- **Restricted funds:** Amount that could not be drawn because of paused activities was negligible
- **Deficit:** No deficit for the fiscal year ended March 31, 2021, but $2-million for the year ended March 31, 2020, due to pandemic

Montreal Symphony Orchestra

Fresh to the party

- **History:** The orchestra's foundation and an endowment campaign were launched in 2009 with a fundraising goal of $60-million. The endowment now includes the Pierre Béique Fund established in 1998 to underwrite touring and performances by international soloists in Montreal.
- **Endowment:** $83-million as of Feb. 28, 2021
- **Draw**: The regular amount was fully disbursed in 2020-21, despite 85 cancelled concerts. In 2019-2020, the foundation had contributed $2.7-million to the orchestra's tour of the Americas, featuring October concerts in South America, Mexico and Chicago, and a February stop in Toronto, followed by the cancellation of its March date in New York.
- **Typical rate:** 3.5 per cent
- **Restricted funds:** No funds were withheld although the endowment is fully restricted, serving long-term success, international recognition and activities in the community.
- **Deficit:** The orchestra posted a surplus of $35,000 for the fiscal year ended Aug. 31, 2020.

Montreal Museum of Fine Arts

Pressing pause

- **History:** First donation earmarked for acquisitions in 1892; separate foundation established in 1994
- **Endowment:** $68.5-million as of March 31, 2021, of which 95 per cent is restricted to specific uses. For example, a quarter is earmarked for the acquisition of art.
- **Draw**: $1-million in fiscal year ended March 31, 2021
- **Typical rate:** 4.5 to 6 per cent, or $3.5-million in 2019-2020, cut by two-thirds by the pandemic
- **Restricted funds:** About $2.5-million could not be drawn because of paused activities. Expectation is that amount will be drawn down in 2021-22, with a projected total draw of $6-million.
- **Deficit:** Predicting small deficit or balanced budget for fiscal year ended March 31, 2021

Royal Ontario Museum

With some help from a friend

- **History:** The ROM Foundation established in 1992 and the endowment in 1998
- **Endowment:** $61.8-million as of March 31, 2021, most of it restricted. (The ROM also benefits from the $90-million Louise Hawley Stone Trust, established in 1997 through a $45-million bequest from the museum's first volunteer. It directs funds towards acquisitions, curatorial appointments, research and publications and is run independently from the museum and its foundation.)
- **Draw:** About $2.5-million in recent years, or 5 per cent of 36-month average market value of endowment funds
- **Typical rate**: As above
- **Restricted funds:** Few activities were completely paused, but where necessary restricted funds have been held back temporarily.
- **Deficit:** Predicting small deficit for fiscal year ended March 31, 2021