

*Recently released  
by IBO...*

**Understanding  
New York City's  
Budget: A Guide**

*...in print or on  
the Web.*

## Broadening the Cultural Challenge: Major Changes Have Altered the Distribution of a Key City Arts Fund

### SUMMARY

In 1995, the Giuliani Administration created the Cultural Challenge, one of the former Mayor's principal funding initiatives for the city's arts and cultural organizations. For budget purposes, the city sorts cultural groups into two different funding streams: The Cultural Institutions Group, or CIG, which are 34 organizations housed on city-owned land; and the Program Group, which consists of all the other arts and cultural groups based in the city.

The Administration initially conceived the annual, \$5 million challenge program as a means of using public funds to leverage private matching dollars for the arts, with each dollar raised privately matched by a dollar of city and state funds (although the state's participation ended after the first year).

Since then, key aspects of the challenge program have changed. Among the changes:

- The matching requirement is now scaled from a one-to-one match for the smallest grants to three-to-one (private to city) for the largest grants;
- Applications are now reviewed in terms of specific funding categories rather than the size of the applicant's budget;
- Although the CIG's continue to receive challenge grants, no share of the awards is reserved for them;
- The maximum grant has fallen from \$500,000 to \$100,000.

As a result of these changes, average grant size has risen, and the Cultural Program receives a greater share of the funding. During the initiative's first two years, all of the 10 largest grants went to CIGs. The average CIG grant award was \$83,804, while the average grant to other arts and cultural groups was \$5,052.

Although CIG members still receive larger average grants than other arts groups—\$29,123 and \$8,393 respectively over the last four years—the difference is much less than before. In 2001, 6 out of the 10 top grant recipients were cultural programs.

**New York City  
Independent Budget Office  
Ronnie Lowenstein, Director  
110 William St., 14th floor  
New York, NY 10038  
Tel. (212) 442-0632  
Fax (212) 442-0350  
e-mail: [ibo@ibo.nyc.ny.us](mailto:ibo@ibo.nyc.ny.us)  
<http://www.ibo.nyc.ny.us>**

In 1995, the Giuliani Administration created the Cultural Challenge, one of the former Mayor's principal funding initiatives for the city's arts and cultural organizations. The Administration initially conceived the challenge program as a means of using public funds to leverage private matching dollars for the arts. "Under the program, private fundraisers will attempt to generate \$10 million in additional new funding for cultural institutions, which will be matched by up to \$5 million each from the city and New York State," according to the Mayor's 1995 budget message.

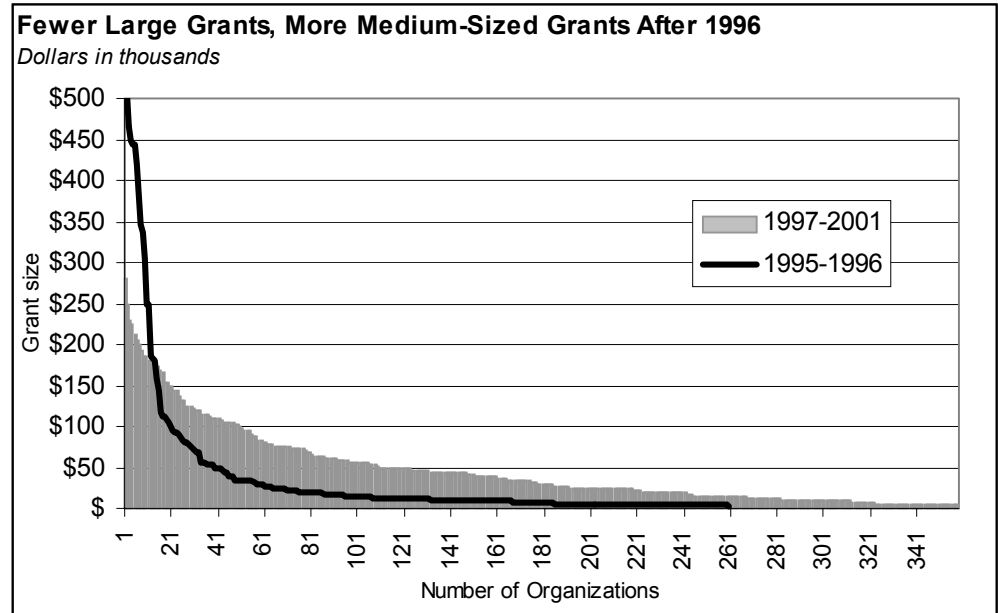
Since then, key aspects of the challenge program have changed. This has resulted in a significant shift in the distribution of city challenge grants away from a set of organizations known as the Cultural Institutions Group (CIG). Among the changes: The terms of the private match are no longer the same, and a percentage of the awards is no longer reserved for CIGs. In addition, the maximum grant has fallen from \$500,000 to \$100,000, and applications are now reviewed in terms of specific funding categories rather than the size of the applicant's budget.

*The Cultural Challenge program.* The Cultural Challenge program started as a joint initiative between the New York State Council on the Arts and the Department of Cultural Affairs in 1995. The two agencies were to provide equal amounts of money to fund New York City cultural projects. In the second year of the program, the state council began to limit its portion of the grants to upstate organizations; the city has continued the program on its own.

A panel of arts administrators selects grant winners based on programmatic merit. Each organization applying for a challenge grant must match the grant with private funds, originally restricted to new money generated in the year of application. The "new money" clause was found to be too restrictive, however, and it was dropped in the second year. The matching requirement also has changed over time. It is now scaled from a one-to-one match for the smallest grants to three-to-one (private to city) for the largest grants. Grants are awarded on an annual basis.

The city has funded the challenge program at \$5 million in

most years, with the exceptions of 1997, when \$2.25 million was provided, and 1999, when no funding was provided due to budget cuts. Altogether, \$27.5 million in Cultural Challenge funding grants has been awarded since 1995. One percent of this amount covers DCA's administrative costs.



Despite the cut last December of \$11.9 million to the \$138 million budget for DCA in 2002, the \$5 million for the Cultural Challenge was not reduced.

*Background on funding for arts and cultural programs.* For budget purposes, the city sorts cultural organizations into two different funding streams. The Cultural Institutions Group consists of 34 museums, gardens, and performance groups with historical ties to New York City, the most important of which is that they are housed on city-owned land. These include mostly larger and older organizations such as the Metropolitan Museum of Art, the Brooklyn Museum, the New York Shakespeare Festival, the Staten Island Historical Society, and the New York Botanical Garden, as well as newer, smaller groups such as the Studio Museum in Harlem.

The city is contracted to pay the institutions' energy costs as well as health insurance for their employees. This portion accounts for about one-fifth of city funding for CIGs. The remainder of city spending on CIGs goes toward other operating support; this amount is determined through negotiations between the Mayor, City Council, and Borough Presidents, as well as discretionary allocations by these officials. The CIGs as a group typically receive 80 to 85 percent of DCA's spending on arts and cultural organizations.

The remainder goes to the so-called Cultural Programs category, which comprises hundreds of groups throughout the city, mostly small and mid-sized arts organizations, but also including many bigger, well-known institutions not in the CIG, such as the Museum of Modern Art and the Guggenheim. Funding for these organizations is also based on negotiations between the Mayor, Borough Presidents, and City Council members, as well as discretionary allocations.

*Changes alter the distribution of grants.* The challenge program changed significantly after its first two years, and reduced the dominance of the CIGs among grant recipients. Originally, organizations were grouped and reviewed according to budget size. Sixty percent of challenge funding was set aside for CIG members. The city's other cultural organizations were eligible for the remaining 40 percent—the distribution resulted in a split of 20 percent to larger groups and 20 percent to smaller groups. In 1997, DCA began to review challenge applications based solely on programmatic themes, rather than on budget size. The set-aside for CIGs also was eliminated. Thus, all cultural organizations, CIG or non-CIG, regardless of size, competed for grants based on the year's grant categories.

**Cultural Challenge Grant Categories**

1997	American Disabilities Act Access Arts in Education Marketing/Outreach for a Diverse Audience
1998	Creation of a New Work Stabilization Training
1999	No Grants Awarded
2000	Artists in Residence Restoration Technology
2001	Exploring New York's Newest Cultures Free Events Documenting/Recording Work
2002	Arts in Natural Settings Careers in the Arts Creation of New Work

SOURCES: IBO; DCA.

Grant limits also have changed over time. In the first two years, the maximum possible grant size was \$500,000 annually. The largest grant actually awarded by the city was \$265,000. Budget cuts in 1997 resulted in \$50,000 as the largest award. Beginning in 1998, the maximum possible award changed to \$100,000. The largest grant in 2001 was \$81,000.

Upon application, organizations name their desired grant

amount. DCA then either accepts their application and awards the full grant requested or rejects the application and awards nothing. Applicants may therefore make more modest requests in order to minimize the risk of rejection.

The changes implemented to the program beginning in 1997—the substantial decrease in the maximum grant limit and grant competition based on purpose rather than by budget size—reduced the disparities in the distribution of grant awards and reduced the dominance of the CIGs among large grant recipients.

In the first two years, when the maximum grant size was much larger, the distribution of challenge funds was very uneven—the top fifth percentile of funded organizations received one-half of the entire challenge grant money. All of the top 10 recipients were CIGs, and the yearly average CIG grant award was \$83,804, while the average grant to other cultural groups was \$5,052.

The number of mid-range awards—greater than \$10,000—has risen while the number of small awards has fallen. Although CIG members still receive larger average grants than other arts groups—\$29,123 and \$8,393 respectively in the last four years—the difference is much smaller than before. Nor do CIGs dominate the list of top recipients as they formerly did: only 4 out of the top 10 grant recipients in 2001 were CIGs. A diverse set of other cultural organizations also received substantial funding: the Spanish Repertory Theater Company, Ringside, Alliance for the Arts, Paul Taylor Dance Foundation, Community Works, and the Brooklyn Philharmonic Symphony Orchestra were the Program Groups represented in the top 10 in 2001.

While the distribution has become more equal, the top recipients still receive substantially more than the bulk of the recipients. The top 5 percent of recipients in 2001, for example, received 21 percent of all grant money.

*Repeat awards.* While the members of the Cultural Institutions Group have tended to receive challenge grants several times, other arts groups have more often received grants in just one or two years. Twenty-six organizations, including nine CIGs, have received challenge grants in each of the initiative's six years. Conversely, 146 groups received a single grant—none of these one-time only recipients are among the CIGs.

A total of 422 different organizations have received challenge grants, including all 34 CIGs. About 200 organizations receive grants each year (except in 1997, when funding was lower).

According to DCA, many organizations in the city chose not to apply for the challenge grant for a variety of reasons.

The challenge grant initiative has helped increase overall funding for the Cultural Program group on a competitive basis. Challenge grants represented 17 percent of total city operating budget funding for these arts groups in 2001. The Cultural Challenge also has marginally added to the city operating aid already received by the CIGs. And CIGs continue to receive 15 percent or more of Cultural Challenge funds.

### CIGs Receive Awards Repeatedly

	Number of times funded						Total
	One	Two	Three	Four	Five	Six	
CIGs	0	4	4	6	11	9	34
Other Groups	146	89	61	39	36	17	388

SOURCES: IBO; DCA.

*Written by Elizabeth Zeldin*

## Recent Publications from IBO...

*New York City's Fiscal Outlook for Fiscal Years 2002-2005*

*Understanding New York City's Budget: A Guide*

*Tax Revenue Update: City Faces Significant Shortfalls from Adopted Budget*

*New York's Increasing Dependence on the Welfare Surplus*

*A Statistical Portrait of Uncertified Teachers in New York City Schools*

*Full Disclosure? Assessing City Reporting on Business Retention Deals*

If you receive *Inside the Budget* by fax you may be missing out on new reports and fiscal and policy briefs from IBO. Become an e-mail subscriber to *Inside the Budget* and we also will send you our fiscal and policy briefs, as well as notification of other new publications. To convert to an e-mail subscription, call (212) 442-0632.