

**Funding Model Observations and Recommendations**  
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**Summary**

- The Live Music Fund is dependent on a funding source (the hotel occupancy tax) that draws from travel and tourism that has obviously been severely hit. The hotel occupancy tax has suffered a severe impact and will affect programs in the Convention Center that will further exacerbate the ability to spend any of the funding dedicated to the Live Music Fund.
- Recent emergency funding for music and the music industry is one-time funding.
- A new funding model is suggested that adds a secondary fund as a companion to the Live Music Fund. The secondary fund will require administrative and fundraising capabilities. A new fund can capture new secondary funding streams such as technology philanthropy where music and other cultural organizations have struggled to garner a share. Studies of millennial giving show that they favor education and basic-needs charities and environment, civil rights and activism. On the bottom of the list? Music, arts, and culture.

**Background**

This report is intended to provide information on the development of a music funding model – which is defined as a *methodical and institutionalized approach to building a reliable revenue base to support musicians and the music industry.*

The Live Music Working Group is a stakeholder group appointed by the City of Austin’s Music Commission. The Working Group’s charge is to recommend to the Music Commission the elements that will support City Ordinance No. 20190919-149. To date the Live Music Working Group has discussed many areas related to the development of the fund including: organizational structure, governance, program areas for funding, eligibility criteria, and priority areas for funding consideration.

The ordinance effective September 30, 2019 allocates the use of hotel occupancy tax revenue to provide additional funds for local music and historic preservation. Specifically, of the additional two percent hotel occupancy tax for the Convention Center Expansion, an amount equal to 15% of the two percent assessment is allocated to the Live Music Fund for local music that meets the requirements of Texas Tax Code Section 351.101(a)(4) and that is not funded through the Cultural Arts Fund. Section 351.101 (a) (4) states the available uses as ***“the encouragement, promotion, improvement, and application of the arts, including instrumental and vocal music, dance, drama, folk art, creative writing, architecture, design and allied fields, painting, sculpture, photography, graphic and craft arts, motion pictures, radio, television, tape***

*and sound recording, and other arts related to the presentation, performance, execution, and exhibition of these major art forms.”*

The City ordinance establishing the Live Music Fund can be found at:  
<https://www.austintexas.gov/edims/document.cfm?id=328565>

The initial Live Music Fund was estimated at \$3.5 million. Since the enactment of the Live Music fund, HOT funds have been deeply affected because of the COVID-19 pandemic. A recent City report noted that Average Daily Rates for the Hotel Industry has dropped to 5% down from 20% the previous year. Recently, the City’s Convention Center Hotel bond rating has been lowered and the outlook for HOT revenues is uncertain in the near future. With this in mind, it is important for the Live Music Working Group to integrate this planning scenario in its recommendations for the short and longer-term and to determine an appropriate funding model.

Until the advent of the Live Music Fund there has not been a dedicated funding stream for music and the music industry. The COVID-19 pandemic has brought about several emergency music centric funding streams including the Austin Music Disaster Relief Fund (\$1.5 million); the Austin Artist Disaster Relief Fund (\$1.0 million), and the Austin Creative Space Disaster Relief Program (\$1 million). Additionally, the City Council has approved funding where musicians and music businesses might apply including small business assistance (\$16.5 million); nonprofit assistance (\$6.35 million); and creative sector workers (\$3 million). These funds are only one-time emergency funds and the majority are federal funds.

## **Funding Model**

The Live Music Fund requires clarity as to how it will fund its intended targets. The Live Music Working Group’s job is to identify beneficiaries and how the fund will make a difference for them with its funds. Given the potential slow recovery in tourism and tourism dollars for the hotel occupancy tax building and scaling sustainable financial support is as complicated and important as figuring out the programmatic dimensions.

A funding model that only relies on slow revenue growth hotel occupancy growth is problematic. The guidelines to help the Working Group should be to: (1) get a sense of where we are; (2) branch out and develop a funding mix; (3) weigh revenue potential against associated costs; and; (4) pave the road.

1. Getting a Sense of Where We Are. Traditionally with funding models, the way forward starts with a look back. In this case, we are in an unprecedented situation as the historical approach to funding doesn’t relate the near future. A recent City Budget report dated April 7<sup>th</sup> provided the following:

- *Hotel Occupancy Taxes – Severe Impact*

- *Impact on programs in the Convention Center, Historic Preservation, Cultural Arts, and Music Funds*
- **Lodging Taxes**
  - *Travel & Tourism obviously severely hit – some modest demand from first responders, medical professionals, those who must distance from family*
  - *Rates likely will be affected – while industry will try to hold the line as compared to past crisis situations (9/11 & 2008) the impact to the economy and massive excess supply will put downward pressure*
  - *Scenario for real time activity – Average Daily Rate (ADR) down 20% from previous year, occupancy down as much as 95%; EOY occupancy projections is 35% and ADR is \$78.50 (down from \$175.81 in March)*

Funding Sources: Analyzing historical sources isn't going to help articulate what the potential revenue streams will be in the short and medium run and how it may change in the future. The Live Music Fund is dependent on a funding stream that is uncertain and unstable because of the pandemic. Ideally, a fund that garners revenues from three or more funders gives it a good chance of weathering the loss of one. There is also the tactical issue that the Live Music Fund is tied to the future of the new Convention Center. Assuming the favored construction scenario the new Convention Center was underfunded by 50% before the pandemic and a funding source other than Hotel Occupancy Tax was required.

2. Branch out and develop a funding mix. Understanding that the Live Music Fund relies on an unstable and fluctuating stream of funding means that using new tactics to cultivate new discrete sources. Adopting a broader funding mix means that new capabilities will be required. These capabilities include fundraising, performance measurement, and reporting. A clear funding model could include for example, a companion fund to the Live Music Fund where the majority of support comes from individuals, foundations, and private companies. The companion fund will not be subject to the constraints of the Live Music Fund's state statute requirements, yet, can be used to leverage companion or additional programming.

The Live Music Working Group should consider adding capabilities and creating a new fund to the Live Music Fund. There are three important aspects to consider: fitting within the defining features of the Live Music Fund; type of funding; and funding decision makers and their motivations. For the funding model's primary type of funding, the Live Music Fund, would the primary type of funding (hotel occupancy tax) allow it to appeal successfully to the relevant funding decision makers, tapping into the same motivations that lay behind the funding of the Live Music Fund? In order to do so, would a new fund need to make changes to the program model – adjusting existing programs, adding new ones, servicing different beneficiaries, or expanding to new geographies? Would the Live Music Working Group be willing to recommend those changes?

Capabilities would have to be added to access new relevant sources of funds. For example, could the new fund cultivate new donors and funders? And does it have the appetite for

doing so? Will the new funding model be willing to create a nonprofit to add these capabilities?

One ripe area of philanthropy that could be targeted is technology giving. In 2018, there were 46 relocations to the Austin area and that doesn't include companies already opening up second offices and those who are expanding like Apple, Amazon, and Google. In 2019, one of the biggest moves was that of Zoho who left the East Bay area to establish its headquarters in South Austin. Whenever the factors are discussed as to why companies move from California to Austin for example, inevitably, the list is quality of life, traffic, cost of living, housing prices, and **the Austin music scene**. The headlines read like from Business Insider, "Austin, Texas, is the fastest-growing major metro area in the US with a vibrant music scene and relatively low cost of living." Big tech has noticeably made itself more at home in the capital city in the last decade, but the industry has a long history in Austin.

Despite the looming presence of Big Tech in Austin, why is Austin music struggling to garner a share? A recent study of millennial giving, "Next Gen Donors," conducted by the Frey Chair for Family Foundations and Philanthropy program, showed that they favored education and basic-needs charities, and preferred animal welfare, environment, civil rights and activism. On the bottom of the list? Music, Arts, and Culture.

In the pandemic big tech has muscled up and have extended their reach by integrating technology into every aspect of civic life. Tech has focused on telehealth, remote learning, and broadband. Some are calling it the "Screen New Deal" where our future is in the no-touch future via high-speed digital connectivity for our schools, workplaces, and primary entertainment venues. It's a potential future that impacts employment of workers.

A new fund might target technology in a strategic fashion conducting harnessing data to determine the disconnect in attracting those dollars for music. Tech and music are intertwined and those relationships are sometime not as obvious for building a donor base.

3. Weigh Revenue Potential Against Associated Costs. In assessing a new funding model, weighing costs and benefits is essential. The revenue a new nonprofit can reasonably expect to access through a given funding model must be sufficient to warrant the program, staff, and systems investments required to develop it. Assessing the revenue potential of a given funding model means digging into the leading types of funding, considering in particular the priority funding sources for music and the music industry which until recently have not been in place, the total dollars awarded annually through each of these sources, and the level of competition for those funds.
  - a. Programs – It may be necessary to refine the programs anticipated to be funded through the Live Music Fund into the new fund to serve a different group of beneficiaries.
  - b. Personnel – New capabilities and staff time are required to develop and manage the funding associated with a new funding model.

- c. Systems – New funding models place greater demand on systems especially in performance measurement.
4. Pave the Road. Getting an understanding of the limitations of the Live Music Fund and that the fund will not be operational for some time, then consideration should be given to tallying the cost of creating a new fund as a companion fund and weighing it against expected benefits. Settling on a single funding model right now is the issue of uncertainty. When pursuing a new funding model, we should consider secondary sources that may go a long way toward complementing the primary funding source and serve as a stabilizer since it appears that the primary funding source has ups and downs. There are examples of many nonprofits that derive the bulk of their revenue from small donations, corporate sponsorships, and foundation grants. The new sources may become the growth engine for the future, giving the primary funding stream, the Live Music Fund, an opportunity to become steady. New funding models typically requires two or three years to take hold. A good implementation plan is an invaluable resource as the organization paves its new road.

### **Recommendations**

- A. Consider creating a new companion fund to the Live Music Fund that can be immediately activated. The Live Music Working Group would continue its work in outlining the purpose of the new fund along with specifics as to its organization structure, development targets, fundraising strategy and other administrative tasks.
- B. Consider creating a new nonprofit to manage the Live Music Fund and the new companion fund after considering the costs and benefits associated with a new fund. The reason for a nonprofit is to have fundraising capabilities along with administrative and performance measurement. The nonprofit would manage both funds.
- C. Consider creating the Live Music Fund and the new fund as associated funds with the Austin Community Foundation (ACF). The ACF's associated funds are designated to support a particular community, interest area, or region. Associated funds are led by the board of the nonprofit. The funds make grants and direct fundraising efforts in their specific communities or interest areas.
- D. In a new fund, target technology as a primary donor using a data driven and messaging campaign.