
EXECUTIVE SUMMARY

THE ECONOMIC IMPORTANCE OF THE ARTS & CULTURAL INDUSTRIES IN SANTA FE COUNTY

Financial support for this research was provided by
The McCune Charitable Foundation
The Azalea Foundation
The Burnett Foundation

By Dr. Jeffrey Mitchell and
Dr. Lee A. Reynis
November 2004

UNIVERSITY OF NEW MEXICO
BUREAU OF BUSINESS AND
ECONOMIC RESEARCH



PART I: ECONOMIC IMPACT OF ARTS & CULTURAL INDUSTRIES ON SANTA FE COUNTY

- In 2002, Santa Fe's arts & cultural industries (A&CI) and cultural tourism generated over \$1 billion in receipts, employed 12,567 workers (17.5% of total employment in Santa Fe county), and paid \$231.5 million in wages and salaries. Just over one-half of employment and wages are generated by industries that are either directly engaged in the creation, presentation or preservation of art and/or cultural activities, or indirectly engaged with cultural content but not themselves "source activities". The balance is generated by the tourism industry to the extent that tourism is associated with an interest in Santa Fe's art, cultural and historical attractions.
- Santa Fe's cultural activities are funded principally with revenues that originate outside the county. Of the total revenues generated by the industries in 2002, 78%, or \$814 million, were drawn from areas outside SF County. Including the indirect and induced effects of these revenues and subtracting leakages from local economy, the total impact of A&CIs on the economy of Santa Fe County that are associated with outside funds was \$773.3 million, creating 12,953 jobs and paying \$310.3 million in disposable income.
- The funds that the A&CIs draw to Santa Fe represent a substantial contribution to the local economy. By definition, local spending does not create new jobs or incomes – local spending serves only to redistribute existing dollars. By contrast, the funds that the A&CIs inject into the economy create new jobs and new sources of income on a net basis. In this regard, the contribution of the A&CIs to the Santa Fe's county is very substantial. By BBER estimates, the \$814 million that the A&CIs and cultural tourism bring into Santa Fe may account for as much as 39% of the total inflow of money into the local economy from a variety of sources including exports of goods, tourism, consulting contracts, and dividend and interest income.
- Santa Fe's A&CIs and related cultural tourism contribute substantially to public finances in New Mexico. Activities related to Santa Fe's A&CIs produce an estimated \$22.6 million in taxes and other revenues to the City of Santa Fe – about five dollars for every dollar that the city spends on the arts &

culture. Similarly, activities associated with the county's A&CIs generate about \$36 million in revenues on an annual basis – some 40 % more than state budgets in support of the arts & cultural activities in Santa Fe.

Comparative Analysis of Santa Fe's Arts & Cultural Industries

- The contribution of the A&CIs to Santa Fe's economy exceeds the contributions of the A&CIs to other communities in the United States. Widely recognized studies by *Americans for the Arts* and by Professor Richard Florida, author of *The Rise of the Creative Class*, rank Santa Fe first among cities of similar size in terms of the contributions of the A&CIs to the economy. Representation of artists and cultural workers in Santa Fe's labor force is unparalleled – the city boasts the largest proportion of artists, performers & writers as share of total employment of any U.S. city, and is among the top 10 in terms of museum curators, architects and graphic designer. According to the Economic Census, in terms of dollar sales Santa Fe is among the largest art markets in the US.
- Santa Fe's A&CIs rank among the top contributors to economic development in New Mexico. Preliminary estimates based on secondary sources and previous work by BBER suggest that the volume of dollars Santa Fe's A&CIs bring into the county is 100 times greater than what New Mexico's film industry brings to the state; is comparable to all aspects of the University of New Mexico contribution to the state; is roughly equal to the total contribution of Intel (which has benefited from generous tax breaks); and is equivalent to about 70% of the volume of funds brought into the state by LANL.

PART II: QUALITATIVE ANALYSIS OF RELATIONS BETWEEN ARTS & CULTURAL INDUSTRIES AND OTHER SECTORS OF THE SANTA FE COMMUNITY

The purpose of Part 2 of this research project is to look behind these numbers and examine the social and economic dynamics that link arts and culture to other sectors of the community of Santa Fe. The premise of this work is that a better understanding of these dynamics will enable industry leaders and the community to leverage the assets of the arts & culture sector to create a broader pattern of economic growth and increase benefits to the city's population. To investigate these dynamics BBER conducted nearly 100 in-depth interviews with

people representing various sectors of the community; analyzed demographic and historical economic data; and reviewed academic and planning literature on issues relevant to experiences and challenges faced by Santa Fe.

Challenges

The findings of this research highlight several challenges facing Santa Fe's A&CIs and its overall economy and point to key areas where the assets of arts & culture can be leveraged to create a more cohesive and dynamic regional economy. Among the principal challenges are:

- Economic and demographic changes have created a crisis of affordability that threatens the conditions of success of Santa Fe's creative economy. Wages in Santa Fe are 20% lower than the national average but the median value of owner-occupied housing is 53% higher than the national level; the value of housing units is increasing at nearly 3 times the national rate. The increase in the relative cost of living disproportionately affects artists, young adults and traditional Hispanic and Native American populations, many of whom are forced to relocate out of Santa Fe to more affordable locations. These demographic changes undermine the diversity of the community and the environment of creativity in Santa Fe.
- Evidence suggests a growing disconnect between the creative & commercial aspects of Santa Fe's art industry. Data collected in first part of this research project shows that about 8% of art by value sold in Santa Fe galleries is produced by artists who live in the county (an additional 8% is produced in parts of New Mexico); slightly more 90% of Santa Fe gallery revenues come from art delivered out-of-state, and hence are exempt from gross receipt taxes. The consequence of these trends is that much of the wealth generated by A&CIs is leaving in Santa Fe, diminishing the resources available for reinvestment in the creative and productive capacity of the community.
- To date, Santa Fe has failed to establish A&CIs in new media and emerging industries and markets. Technical and social innovation has created new outlets for the delivery of cultural products, increasing competition and necessitating innovation. To its advantage, Santa Fe possesses a high level of technical capacity, complementing the region's rich cultural resources. However, a weak tradition of entrepreneurship, poorly developed investment networks and limited institutional support have impeded collaboration

between the creative and technical communities of Santa Fe, restricting the development of products in new media and markets.

- Santa Fe has lost nearly one-third of its share of the national tourism market since the mid-1990s. The decline is part of a statewide pattern, but is most pronounced in Santa Fe. Available evidence suggests that tourism industry in Santa Fe is supported by an increasingly narrow market of repeat visitors, and is failing to expand its appeal to more rapidly growing market segments. Declining market share is problematic because it tends to increase the volatility of the industry during periods of change and market instability; it limits the capacity of Santa Fe to leverage its success in tourism in other industries; and more generally, it raises questions regarding the value of the Santa Fe “brand” over the longer term.

Opportunities

BBER’s research also points to crucial dynamics that have the potential to contribute to a rejuvenation of Santa Fe’s A&CIs and a widening of its impact on the economy of as a whole:

- All sectors of the community express pride in Santa Fe’s tradition in the arts and emphasize the importance of the region’s cultural heritage and diversity to the future and development of the community. This commonality may serve as a rallying point to unite the community, to provide a basis for an open exchange of ideas, and to develop and implement a plan for economic development that benefits all Santa Feans.
- Other communities appear to have successfully confronted challenges similar to in Santa Fe and successfully rejuvenated their arts & culture-based economies. Researchers have examined the cyclical trends of culture-based development, including art communities, tourism and amenity migration, and have noted predictable patterns known as “life cycles”. According to these models, a period of stagnation commonly follows periods of discovery, growth and maturation. However, communities can overcome stagnation and experience rejuvenation if early signs of stagnation are acknowledged and leaders emerge to engage the community in a process of redefinition, restructuring and long-term strategic planning. Venice, Italy; Lancaster County, Pennsylvania; Niagara Falls, New York; and various communities in New England are among the many places that have successfully confronted the “life cycle” dilemma.

Strategies for Rejuvenating Santa Fe's Art & Culture-based Economy

To confront these challenges, Santa Fe should renew its commitment to the communities and resources that are necessary for creativity and production while also repositioning itself in regional, national and global markets. In broad terms, these measures should include the following:

- Embrace and invest in the diversity and creativity of the community. To confront the crisis of affordability and support the diversity and creativity that is the foundation of the A&CIs, Santa Fe should pursue educational policies that deepen the community's sense of ownership of A&CIs, ensure that the diverse resources and traditions of the community are fully engaged in the creative process, and prepare students for employment in the creative economy of the future. In addition, Santa Fe should implement policies that provide affordable space for housing and work for the communities currently under pressure. To finance these investments, Santa Fe should consider mechanisms to capture a portion of the wealth created by A&CIs, especially the art market, cultural tourism and amenity migration. The use of such mechanisms can be seen in the common interest of all stakeholders in that the capacity of A&CIs to generate revenues owes in part to the endowment of public assets – the region's culture, heritage and environment.
- Santa Fe can and should strengthen its regional connections. Underlying many of the challenges described above is Santa Fe's relative small size and geographical isolation. The City and County lack a sufficiently large and specialized labor force, spaces for collaborative work, a research university and a major regional airport. Further, the restricted supply of natural resources, particularly water, constrains the capacity of Santa Fe to grow beyond its present limitations. These are critical constraints in a highly competitive national and global creative economy. However, Santa Fe can overcome many of its constraints by improving its connections with Albuquerque and other communities in Northern New Mexico. Santa Fe should assume a leading role in establishing a corridor of creativity and cultural diversity, strengthening regional relationships and cultivating a new "geographical division of labor". Within this regional framework, Santa Fe can better specialize as a creative and organizational center and principal point of exchange while providing new opportunities and markets to other parts of Northern New Mexico.

- Santa Fe should utilize its prestige, “brand” identity and cultural resources to redefine itself within a national and global context. Although relatively small, Santa Fe has a global presence as a center for the arts and cultural enterprise. Its prestige and the associated resources should be used to broaden the community’s role in the creative economy beyond the existing A&CIs to establish Santa Fe as a center for creativity and innovation. This initiative would require a long-term plan that addresses not only the area’s existing advantages in cultural tourism and amenity migration, but also the possibility of developing industries that combine Santa Fe’s cultural and technical resources. Initiatives might include centers for the development of art in education; creative problem-solving and conflict resolution; environment-friendly development; and cultural preservation and collaboration.