



Chris Burden, *Urban Light*, 2008
The Gordon Family Foundation's gift to
Transformation: The LACMA Campaign
© Chris Burden

THE TRANSFORMATION OF LACMA

AN ECONOMIC IMPACT ANALYSIS

FINAL REPORT

ECONOMIC AND POLICY ANALYSIS GROUP
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The LAEDC Economic and Policy Analysis Group provides objective economic and policy research for public agencies and private firms. The group focuses on economic impact studies, regional industry analyses, economic forecasts and issue studies, particularly in workforce development, transportation, infrastructure and environmental policy.

Every reasonable effort has been made to ensure that the data contained herein reflect the most accurate and timely information possible and they are believed to be reliable.

The report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, endorsements, representations or warranties of any kind whatsoever.

Executive Summary

Los Angeles County Museum of Art (LACMA) is one of the nation's premier destinations for artistic and cultural interests, with an encyclopedic art collection spanning historic and contemporary art. LACMA serves its audiences through the support of public funds and private philanthropy. In 2004, LACMA's Board of Trustees initiated a three-phase plan, labeled the *Transformation*, to unify the Museum and cement its position as a global arts venue.

Economic Impact of Investment Spending

In addition to modernizing LACMA's campus and increasing exhibition space by more than 100,000 square feet, the investment spending during Phases 1 and 2 of the *Transformation* generated significant benefits to Los Angeles County and its residents, which are presented in Exhibit E-1.

Exhibit E-1 Economic and Fiscal Impact of LACMA's Transformation

Direct Expenditures¹ (\$ millions)	\$ 279.6
Total Economic Impact:	
Output (\$ millions)	\$ 477.4
Employment (jobs)	3,650
<i>Direct</i>	2,340
<i>Indirect and induced</i>	1,310
Labor income (\$ millions)	\$ 230.2
Total Fiscal Impact (\$ millions):	
State and local tax revenues	\$ 21.9
Federal tax revenues	41.7

¹ Inflation-adjusted to current dollars
Source: Estimates by LAEDC

It is estimated that Phases 1 and 2 of the *Transformation* generated economic output in Los Angeles County of more than \$477 million, and supported 3,650 jobs with a labor income of \$230.2 million during its nine-year campaign. Moreover, this economic activity is estimated to have generated almost \$22 million state and local taxes and \$41.7 million in federal taxes.



Lynda and Stewart Resnick Exhibition Pavilion (foreground) and Broad Contemporary Art Museum (background)
Photo by Alex Vertikoff

Incremental Economic Impact

The first two phases of LACMA's *Transformation* resulted in a destination with increased visibility that has doubled attendance and increased visitor spending in the surrounding area. The incremental impact of LACMA's ongoing operations is presented in Exhibit E-2.

Exhibit E-2 Economic and Fiscal Impact of LACMA's Transformation

Incremental Direct Activity¹ (\$ millions)	\$ 44.1
Total Incremental Economic Impact:	
Output (\$ millions)	\$ 88.3
Employment (jobs)	700
<i>Direct</i>	380
<i>Indirect and induced</i>	320
Labor income (\$ millions)	\$ 35.2
Total Incremental Fiscal Impact (\$ millions):	
State and local tax revenues	\$ 4.8
Federal tax revenues	6.9

¹ Inflation-adjusted to current dollars
Source: Estimates by LAEDC

The Museum's annual direct activity has grown by \$44.1 million, yielding an annual increase of \$88.3 million in economic output in Los Angeles County, and 700 additional jobs with annual labor income of more than \$35 million. State and local governments are earning an additional \$4.8 million in tax revenues, and federal agencies are receiving an additional \$6.9 million attributable to the *Transformation*.

Looking Towards the Future

LACMA's *Transformation* demonstrates how public investment and private philanthropy can together create a larger overall benefit to Los Angeles County. County funding represented approximately ten percent of the overall investment, leveraging itself nine-fold with the generous contributions of Museum supporters. This investment will be repaid in tax revenues to the County within just a few years given the multiplied economic activity generated by the investment spending and by the incremental activity of the transformed Museum. The investment itself will have recouped itself in terms of output in Los Angeles County by the end of the first post-*Transformation* year.

As it grows in both size and prominence, providing visitors with exciting cultural products and experiences, LACMA will also grow as a magnet for national and international tourists to Los Angeles, encouraging their stay and resulting in a rise in visitor spending directly attributable to the Museum. ❖



Robert Mapplethorpe, *Calla Lily*, 1988
Jointly acquired by LACMA and The J. Paul Getty Trust
Partial gift of the Robert Mapplethorpe Foundation
Partial purchase with funds from The David Geffen Foundation and
The J. Paul Getty Trust
© Robert Mapplethorpe Foundation

1 Introduction

The Los Angeles County Museum of Art (LACMA) is the largest art museum in the western United States, housing more than 120,000 objects from ancient times to the modern era. On twenty acres in the Miracle Mile area of Los Angeles, LACMA has become a hub for cultural and artistic activity in the entertainment capital of the world, attracting more than 1.2 million visitors annually and providing cultural exposure through its vast collections, public programs, educational outreach, and research facilities.

Established as an offshoot of the Los Angeles Museum of History, Science and Art in the 60s, LACMA's designated focus was strictly art, to include exhibits, music, performances and education.

Originally, the Museum's campus consisted of three buildings, but it grew to include a fourth in 1986, and added the Pavilion for Japanese Art in 1988. In 1994, LACMA acquired the adjacent May Company department store building, a classic example of the late art deco style of streamline moderne, on the corner of Fairfax and Wilshire, and dubbed it LACMA West.

While the Museum had increased its size significantly with LACMA West, it was clear that additional growth was needed. In 1997, a long-term strategic plan was adopted that outlined a major expansion and endowment campaign. The Museum's board of trustees voted in 2004 to embark upon a three-phased Master Plan for LACMA, labeled the *Transformation*, for museum revitalization and additional development.

In April of 2006, Michael Govan was named LACMA's Chief Executive Officer and Wallis Annenberg Director, with a vision of creating juxtaposition between the historical and the modern. Under his direction, the first two phases of the *Transformation* came to fruition. Govan increased the modern art presence at the museum and coordinated the commission and installation of artist projects such as Chris Burden's *Urban Light*, which have become iconic destinations for both Los Angeles locals and out-of-area visitors.

Completed in 2008, the first phase of the *Transformation* included the construction of the Broad Contemporary Art Museum, the BP Grand Entrance, the Dona S. and Dwight M. Kendall Concourse, new outdoor space in the



Michael Heizer, *Levitated Mass*, conceived 1969, realized 2012
 Made possible by gifts to *Transformation: The LACMA Campaign* from Jane and Terry Semel, Bobby Kotick, Carole Bayer Sager and Bob Daly, Beth and Joshua Friedman, Steve Tisch Family Foundation, Elaine Wynn, Linda, Bobby, and Brian Daly, Richard Merkin, MD, and the Mohn Family Foundation, and is dedicated by LACMA to the memory of Nancy Daly

South and North Plazas, a parking structure, and reinstalled galleries in the Ahmanson Building.

Phase 2 of the *Transformation*, completed between 2010 and 2012, included the construction of the Lynda and Stewart Resnick Exhibition Pavilion, a new restaurant and bar, and the installation of Michael Heizer's outdoor sculpture, *Levitated Mass*.

Investment in the *Transformation* has already brought significant benefits to Los Angeles County and its residents, which extend beyond the construction and related industries as wages and payments for purchases of goods and services circulated throughout the economy, generating additional indirect and induced activity in Los Angeles County. In addition, the ongoing activity of the Museum and its visitors continue to contribute to the economic and cultural vitality of the region, and cement Los Angeles' reputation as the center of entertainment and arts in the nation. ❖



Man's Suite, France, c. 1790-1800

Purchase with funds provided by Suzanne A. Saperstein and Michael and Ellen Michaelson, with additional funding from the Costume Council, the Edgerton Foundation, Gail and Gerald Oppenheimer, Maureen H. Shapiro, Grace Tsao, and Lenore and Richard Wayne

Economic Impact Analysis

Economic impact analysis is used to estimate the overall economic activity, including spill-over and multiplier impacts, which occurs as a result of a particular business, event or geography.

The economic activity related to the *Transformation* and the ongoing operations of the Los Angeles County Museum of Art begins with the purchase of goods and services from local vendors and the wages and benefits paid to local workers.

During the *Transformation* phase, the primary economic impact was the millions of dollars spent towards goods and services and for the wages and benefits of construction, architectural, engineering and related workers. For example, the construction firm hired by LACMA purchased construction materials including lumber, cement, equipment, tools and other supplies. They have paid the wages and benefits of their own workers as well as for engineers, architects, contractors

and environmental consultants. The suppliers of construction materials, in turn, hired additional workers to service the contract.

During the course of its ongoing operations, LACMA spends millions of dollars every year for the wages and benefits of its employees. These workers, as well as employees of LACMA's suppliers, spend a portion of their incomes on groceries, rent, vehicle expenses, healthcare, entertainment, and so on. This recirculation of the original expenditures multiplies their impact through these indirect and induced effects.

Also, visitors to LACMA purchase goods and services in the broader region during their stay.

The extent to which the initial expenditures multiply is estimated using economic models that depict the relationships between industries (such as LACMA and its suppliers) and among different economic agents (such as industries and their employees).

These models are built upon actual data of expenditure patterns that are reported to the U.S. Bureau of Labor Statistics, the U.S. Census Bureau and the Bureau of Economic Analysis of the U.S. Department of Commerce. Data is regionalized so that it reflects and incorporates local conditions such as prevailing wages rates, expenditure patterns, and resource availability and costs.

The magnitude of the multiplying effect differs from one region to another depending on the extent to which the local region can fill the demand for all rounds of supplying needs. For example, the automobile manufacturing industry has high multipliers in Detroit and Indiana since these regions have deep and wide supplier networks, while the same industry multiplier in Phoenix is quite small. In another example, the jobs multiplier for the construction industry is higher in, say, Arkansas, than in California because the same amount of spending will purchase fewer workers in Los Angeles than in Little Rock.

Multipliers can also differ from year to year as relative material and labor costs change and as the production "recipe" of industries change. For example, the IT revolution significantly reduced the job multiplier of many industries (such as manufacturing, accounting, architecture and publishing) as computers replaced administrative and production workers. ❖

Approach and Methodology

Economic impact analysis typically begins with an increase in final demand for an industry's output, such as a purchase of construction services or an inflow of out-of-town visitors who spend money at local accommodations and retail establishments.

The approach used here is to use the expenditures of LACMA during the two fiscal years ending June 30, 2007 and June 30, 2013, as well as capital improvement expenditures associated with the *Transformation*. This data was provided by LACMA. Non-expenditure costs such as depreciation and asset transfers were excluded as described in the narrative. On-site restaurant activity was considered as a separate revenue item, and restaurant revenues were also provided by LACMA. Expenditures for FY2007 were inflation-adjusted to 2013 dollars, as noted in the narrative.

In addition to on-site activity, the analysis includes off-site ancillary spending of visitors to the Museum. International and out-of-state visitors are assumed to spend one additional day in Los Angeles to visit LACMA and therefore, one day's spending is attributable to the Museum. Ancillary spending of local visitors (i.e., residents of Los Angeles County) is excluded, since these visitors would have spent these same monies elsewhere in the region, making their expenditures related to LACMA a *displacement* of local spending and not *new* spending attributable to the Museum.

Attendance data was provided by LACMA. Expenditure patterns vary according to the origin of visitors. Consequently, attendance was distributed among local, non-local domestic and international visitors. Estimates for local spending of both local, non-local domestic and international visitors to LACMA were derived using data published by *Visit California*. As these estimates are produced in 2010 dollars, they are adjusted for inflation to 2013 dollars for consistency.

The metrics used to determine the value of the economic impact include employment, labor income and the value of output. *Employment* includes full-time, part-time, permanent and seasonal employees and the self-employed, and is measured on a job-count basis regardless of the number of hours worked. *Labor income* includes all income received by both payroll employees and the self-employed, including wages and benefits such as health insurance and pension plan contributions. *Output* is the value of the goods and services produced. For most industries, this is simply the revenues generated through sales; for others, in particular retail

and wholesale industries, output is the value of the services supplied.

Once the initial direct activity was determined, indirect and induced impacts were estimated using software and data from MIG, Inc., which traces inter-industry transactions resulting from an increase in demand in a given region. The economic region of interest is Los Angeles County.

The total estimated economic impact includes *direct*, *indirect* and *induced* effects. *Direct activity* includes the materials purchased and the employees hired by the Museum itself. *Indirect effects* are those which stem from the employment and business revenues motivated by the purchases made by the Museum and any of its suppliers. *Induced effects* are those generated by the spending of employees whose wages are sustained by both direct and indirect spending.

Labor income is payments to wage and salary workers and to the self-employed. Employment is measured on a job-count basis for both wage and salary workers and proprietors regardless of the number of hours worked. Unless otherwise noted, labor income, expenditures and output is expressed in current 2013 dollars. ❖



Flute Ornament, Papua New Guinea, East Sepik Province, Yuat River, Biwat People, c. 1925
Purchased with funds provided by the Eli and Edythe Broad Foundation with additional funding by Jane and Terry Semel, the David Bohnett Foundation, Camilla Chandler Frost, Gayle and Edward P. Roski and The Ahmanson Foundation

2 LACMA's Transformation

The *Transformation* is the Los Angeles County Museum of Art's ambitious multi-year project to revitalize, expand, refurbish and unify the twenty-acre campus that houses the Museum.

The *Transformation* consists of three phases. Development began in 2004, and the first two phases, designed by Renzo Piano Building Workshop, were completed by 2012.

Phase 1 unified the museum's campus and integrated the seven buildings and outdoor spaces. This phase also included the construction of the Broad Contemporary Art Museum (BCAM), which opened in 2008, solidifying LACMA's mission of integrating contemporary art into its exhibitions and public programs, and houses the largest share of contemporary art of any encyclopedic museum. Phase 1 of the *Transformation* increased total gallery space from 152,000 square feet to 212,000 square feet. A summary of the components of Phase 1 of the *Transformation* is presented in Exhibit 2-1.

Exhibit 2-1

Transformation Phase 1

New Structures:

The Broad Contemporary Art Museum
The BP Grand Entrance
The Dona S. and Dwight M. Kendall Concourse
Parking Structure

Outdoor Space:

South Plaza
North Plaza

Public Artworks:

Chris Burden's Urban Light
Robert Irwin's Palm Garden

Reinstalled Galleries:

Ahmanson Building (1st and 2nd floor including modern galleries)

Source: LACMA

Phase 2 built upon the progress of Phase 1 with the addition of the Lynda and Stewart Resnick Exhibition Pavilion, which opened in 2010. This is the largest, purpose-built open plan museum space in the world, with a rotating selection of major exhibitions displayed in the 45,000 square foot space. A summary of the components of Phase 2 of the *Transformation* is presented in Exhibit 2-2.

Exhibit 2-2

Transformation Phase 2

New Structures:

The Lynda and Stewart Resnick Exhibition Pavilion

Outdoor Space:

Rehabilitation of Kelly and Robert Day Gardens
Expansion of Robert Irwin's Palm Garden
Reconfiguration of BP Grand Entrance

New Restaurants and Bar:

Ray's Restaurant
Stark Bar

Public Artworks:

Installation of Michael Heizer's Levitated Mass

Other:

Centralized ticketing location

Source: LACMA

Phase 3 of the *Transformation* is still in the planning stages and involves the eventual refurbishing or replacement of the buildings on the eastern side of the property. ❖



Tony Smith, *Smoke*, 1967
 Fabricated 2005, made possible by The Beldegren Family's gift to LACMA in honor of Rebecka Beldegren's birthday
 © Tony Smith Estate / Artists Rights Society (ARS), New York
 Photo © 2011 Steve Cohn/Steve Cohn Photography

Direct Activity

The total cost of the first two phases of the *Transformation* was \$269 million over the nine-year period. This included spending on architecture, engineering, construction, permits, hard costs, site improvements and other costs. The plan elements included the addition of almost 100,000 square feet of gallery space, a new parking structure, a north and south plaza, a concourse, the Broad Contemporary Art Museum, Resnick Pavilion, and the BP Grand Entrance, reinstalled galleries, and the installation of monumental outdoor sculptures.

Transformation expenditures by fiscal year are presented in Exhibit 2-3.

Exhibit 2-3

Transformation Plan Spending by Year

Fiscal Year	\$ millions	% of total
2004	\$ 1.2	0.4
2005	8.2	3.0
2006	23.5	8.8
2007	74.5	27.7
2008	73.7	27.4
2009	36.7	13.6
2010	33.7	12.5
2011	14.0	5.2
2012	3.2	1.2
Total Transformation Expenditures	\$ 268.6	100.0

Source: LACMA

The years of the most significant spending were 2007 and 2008, accounting for more than 55 percent of all expenditures committed during Phases 1 and 2 of the *Transformation*. It was during this period that the Broad Contemporary Art Museum was built and outfitted. This landmark addition to the LACMA campus marked the beginning of the *Transformation*, and a turning point in the Museum’s cultural footprint.

Because the spending occurred over several years, the annual spending was inflation-adjusted to current dollars, bringing the value of the investment to \$279.6 million in today’s dollars. ❖

Economic and Fiscal Impact

The sizeable investment in the *Transformation* has brought significant benefits to Los Angeles County and its residents. These benefits extended beyond the



Robert Irwin
Palm Garden at LACMA

construction and related industries as wages and payments for purchases of goods and services circulated throughout the economy, thereby generating additional indirect and induced activity in Los Angeles County.

Given this, the total economic impact in Los Angeles County of *Transformation* expenditures is shown in Exhibit 2-4.

Exhibit 2-4

Economic and Fiscal Impact of LACMA’s *Transformation*

Direct Expenditures¹ (\$ millions)	\$ 279.6
Total Economic Impact:	
Output (\$ millions)	\$ 477.4
Employment (jobs)	3,650
<i>Direct</i>	2,340
<i>Indirect and induced</i>	1,310
Labor income (\$ millions)	\$ 230.2
Total Fiscal Impact (\$ millions):	
State and local tax revenues	\$ 21.9
Federal tax revenues	41.7

¹ Inflation-adjusted to current dollars
Source: Estimates by LAEDC

It is estimated that Phases 1 and 2 of the *Transformation* have generated economic output in Los Angeles County of more than \$477 million, and has supported 3,650 jobs with a labor income of \$230.2 million during the nine-year campaign.



Ken Price Sculpture: A Retrospective, installation view, 2012
© Ken Price
Photo by Frederik Nilsen

Of the jobs generated, 2,340 were directly involved in the construction activity, and 1,310 were indirect and induced jobs supported by the suppliers and household spending of direct and indirect employees.

This economic activity is estimated to have generated almost \$22 million state and local taxes and \$41.7 million in federal taxes. The disaggregation of taxes by type and by level of government is shown in Exhibit 2-5.

Exhibit 2-5
Fiscal Impact of the Transformation by Type

State and Local Taxes (\$ millions):	
Income taxes	\$ 6.8
Property taxes	5.7
Sales taxes	5.3
Social insurance	0.7
Fees, fines and other taxes	3.4
Total State and Local Taxes	\$ 21.9
Federal Taxes (\$ millions):	
Social insurance	\$ 20.9
Personal income taxes	16.5
Corporate profits taxes	3.0
Other fees, fines and taxes	1.4
Total Federal Taxes	\$ 41.7

Source: Estimates by LAEDC

State and local governments have earned \$21.9 million in revenues from activities associated with the Transformation. Of this, \$6.8 million was earned from taxes on personal income; almost \$5.7 million was earned in property taxes and \$5.3 million in sales taxes.

Federal taxes exceeded \$41.7 million. This included almost \$21 million in social insurance taxes, \$16.5 million in taxes on personal incomes, and more than \$3 million in taxes on corporate profits.

Industry Distribution of Impacts

The total economic impacts have spilled across industries through indirect and induced effects. The complete list of estimated impacts by industry sector is shown in Exhibit 2-6.

Exhibit 2-6
Distribution of Impacts of the Transformation by Industry Sector

	Jobs	Labor Income (\$ millions)	Output (\$ millions)
Utilities	5	\$ 0.4	\$ 2.7
Construction	2,350	154.8	281.1
Manufacturing	30	1.9	14.0
Wholesale trade	40	2.9	7.0
Retail trade	190	7.5	15.5
Transportation and warehousing	50	2.6	7.0
Information	20	2.8	10.7
Finance and insurance	100	7.8	26.4
Real estate and rental	70	2.4	31.1
Professional, scientific technical	180	18.1	28.9
Management of companies	5	0.7	1.3
Administrative and waste services	90	3.3	5.8
Educational services	40	1.9	3.1
Health and social services	200	12.1	21.0
Arts, entertainment and recreation	40	1.2	2.9
Accommodation and food services	130	3.4	8.3
Other services	100	5.1	8.4
Government	10	1.1	2.1
Total	3,650	\$ 230.2	\$ 477.4

Source: Estimates by LAEDC

Of the 3,650 jobs generated, 2,350 were in the construction sector. However, virtually all industry sectors have experienced a positive economic impact from Transformation spending, including professional and technical services, health and social services, retail trade, finance and accommodation and food services.

The values in the exhibit should be interpreted as illustrative of industry effects rather than precise given model and data limitations. A description of these industries is provided in the Appendix. ❖

3 LACMA Operations: Then and Now

The completion of the first two phases of the *Transformation* in 2012, with the expansion and enhancement of exhibits, activities and programs, brought significant changes to the nature, visibility and reputation of the Museum. Overall operations have increased commensurately, as has visitor attendance, marking a significant increase in the local economic impact of LACMA.

For the purpose of estimating the impact of the *Transformation*, a pre- and post-*Transformation* analysis is conducted. The activities of the fiscal year ending June 30, 2007 are used as a pre-*Transformation* baseline of activity, since this was the last full fiscal year prior to the opening of Phase 1. The 2013 fiscal year is the first full fiscal year after the opening of Phase 2, thus the level of activity at LACMA in FY2013 is considered post-*Transformation*.

Direct Activity

Direct activity associated with LACMA is taken in three parts: the expenditures of the Museum, the activities of the on-site restaurants, and the off-site ancillary spending of Museum visitors who have come to the region from elsewhere and inject tourism dollars into the local economy.

LACMA

Exhibit 3-1 displays the LACMA operating expenses by category for both FY2007 and FY2013.

Approximately one third of expenditures are the salaries, wages, benefits and payroll costs for employees.

Other large expenditures include payments made for art acquisitions, interest expenses, and professional fees. Construction costs shown in the exhibit are in addition to those included in the *Transformation* expenditures reviewed above.



Lewis Carroll, "Xie" Kitchin with Bucket and Spade, c.1873
The Marjorie and Leonard Vernon Collection
Gift of The Annenberg Foundation and
promised gift of Carol Vernon and Robert Turbin

Exhibit 3-1

LACMA Operating Expenditures

	FY2007 (\$ millions)	FY2013 (\$ millions)
Salaries, benefits and payroll expenses	\$ 24.6	\$ 34.5
Professional fees	6.8	16.7
Supplies	1.2	1.8
Telephone, postage, shipping	2.2	5.9
Utilities	1.3	2.3
Travel	0.9	1.6
Construction planning & related	3.8	3.1
Interest expense	0.2	14.1
Bond amortization	-	0.6
Depreciation	0.3	7.9
Art acquisition	36.9	9.5
All other	9.8	13.0
Total Expenditures	\$ 87.8	\$ 111.0

Source: LACMA



Installation of ancient American galleries

Overall expenditures grew from \$87.8 million in FY2007 to \$111 million in FY2013, an increase of more than 26 percent, or an average annual growth rate of 4 percent per year.

Not all items listed in the exhibit as operating expenses have an economic impact, such as depreciation and bond amortization (which are line items to account for financial valuation) and art acquisition (which is an exchange of assets). Also, payments known to be made to non-local vendors will not have a local impact. These line items are excluded or adjusted to more accurately account for potential local impact. Net operating expenditures are shown in Exhibit 3-2.

**Exhibit 3-2
Adjustments to Operating Expenditures**

	FY2007 (\$ millions)	FY2013 (\$ millions)
Operating Expenditures	\$ 87.8	\$ 111.0
Excluded Expenditures:		
Interest expense	-	12.6
Bond amortization	-	0.6
Depreciation	0.3	7.9
Art acquisition	36.9	9.5
All other	2.3	3.1
Total Excluded Expenditures:	39.5	33.7
Net Operations Expenditures	\$ 48.3	\$ 77.3

Source: LACMA

Excluding line items which do not have a local economic impact, net operations expenditures were \$48.3 million in FY2007 and \$77.3 million in FY2013. Net operations expenditures of \$48.3 million in FY2007, inflation-adjusted to current dollars, equates to \$53.7 million in today's dollars.

On-Site Restaurants

Not included in Exhibit 3-1 above is the additional activity related to the operations and revenues of on-site restaurants. With the *Transformation*, the opening of new outdoor spaces and the featured Ray's Restaurant and Stark Bar have all encouraged Museum visitors to incorporate food and beverage purchases, accompanied by open-air entertainment, into their day. As a result, revenues from the third-party concessionaire have grown from \$1.4 million in FY2007 to more than \$5 million in FY2013.

The concessionaire pays LACMA for the privilege of providing food and beverage services to patrons of the Museum. LACMA estimates that this equates to approximately nine percent of revenues. To avoid double-counting of this fee in both the concessionaire's impact and LACMA's impact, food services revenues are reduced by this amount. The remaining revenues, which are included in the activity occurring at LACMA, are \$1.3 million in FY2007 and \$4.6 million in FY2013, as shown in Exhibit 3-3.

**Exhibit 3-3
On-Site Restaurant Revenues**

	FY2007 (\$ millions)	FY2013 (\$ millions)
Revenues	\$ 1.44	\$ 5.05
Concessionaire fee ¹	0.13	0.45
Net On-Site Restaurant Revenues	\$ 1.31	\$ 4.59

¹ Estimated average fee/rent paid by concessionaire
Source: LACMA

Net restaurant revenues of \$1.3 million in FY2007, inflation-adjusted to current dollars, equates to \$1.5 million in today's dollars.

Visitor Off-Site Spending

The *Transformation* has added numerous structures, features, exhibits, galleries, space and hospitality options, in addition to attaining national and global prominence as a cultural destination. This growth in the breadth and reach of the Museum has yielded significant increases in attendance, which in itself generates additional economic activity in Los Angeles County.

Visitors to the Museum fall into one of three categories. The first category includes local day visitors from the five counties of Los Angeles, Orange, Ventura, Riverside and San Bernardino. The second category includes visitors who have traveled from other parts of California,

as well as from other states, and who are assumed to spend at least one additional night in Los Angeles County in order to visit LACMA. The third category of visitors includes international visitors to Los Angeles, who are also assumed to have spent one additional day in the region in order to visit LACMA.

The distribution of visitors by origin is presented in Exhibit 3-4.

Exhibit 3-4
Distribution of Visitors by Origin

	FY2007	FY2013
Los Angeles County	419,210	831,560
Surrounding SoCal counties	104,800	156,310
Other California	30,830	62,520
Total California	554,840	1,050,390
Other US	52,400	150,050
International	9,250	50,020
Total	616,490	1,250,460

Source: LACMA

Museum attendance overall has more than doubled since FY2007, reaching 1.2 million in the 2013 fiscal year.

In FY2007, 90 percent of visitors were Californian residents, and approximately two-thirds were Angelenos. Visitors from outside the state accounted for ten percent of Museum attendance, with only 1.5 percent coming from overseas.

By FY2013, international visitors accounted for 4 percent of all attendees, and 12 percent came from other states in the nation. This shift in the origin of Museum attendees is evidence of the growing international reputation of the Museum and of the Los Angeles region and its global draw.

Moreover, the increase in foreign and non-local visitors has changed the economic impact of the Museum, since spending patterns of the three categories of visitors vary. For example, local visitors are not likely to spend the night in nearby lodging, and are less likely to rent a car. Many, including school children or repeat local visitors, will not purchase items in the museum gift shop or food and beverages in the restaurants. The composition of spending of non-local domestic and international visitors differs as well, but visitors in both of these categories will allocate their spending to hotels and accommodations, restaurants and drinking establishments, retail purchases and transportation. International visitors are known to spend more per



Jar with Dragon and Clouds, Korea, probably Kwangju, South Cholla Province, Joseon dynasty (1392-1910), 18th century
Purchased with Museum Funds

person on retail purchases than both other groups of visitors.

Data published by *TNS TravelAmerica* in 2010 was used to estimate the expenditure patterns of non-local domestic visitors to the Museum, and data published by *Visit California* and the California Business, Transportation and Housing Agency in *Overseas and Mexican Visitors to California* in 2010 was used to estimate the local expenditures of international visitors to LACMA. These estimates are presented in Exhibit 3-5.

Exhibit 3-5
Average Visitor Off-Site Spending by Origin

	Visitor Spending per Day
Southern California	\$ 53
Other California (excludes SoCal)	75
Other U.S. (excludes CA)	75
International visitors	116

Sources: *TNS TravelAmerica*, 2010; *Overseas and Mexican Visitors to California*, 2010; Estimates by LAEDC



Stanley Kubrick
Installation view, 2012

These estimates are conservative. In comparison, the estimates used by the Los Angeles Convention Center and Visitors Bureau for international visitors are at least four times as high, and those for domestic non-California visitors are five times that shown in the exhibit.

Also, in the analysis that follows, expenditures of Angelenos are excluded since there is a likelihood that these visitors would have spent these same monies elsewhere in the region, making their expenditures related to LACMA a *displacement* of local spending and not *new* spending attributable to the Museum.

Moreover, to account for visitor spending at the Museum which would already have been included in LACMA revenues, spending for food and beverages and entertainment were further discounted.

Given these considerations, off-site visitor spending attributable to Museum visitors is summarized in Exhibit 3-6.

Exhibit 3-6

Visitor Off-Site Spending by Category

	FY2007 (\$ millions)	FY2013 (\$ millions)
Lodging	\$ 2.6	\$ 8.5
Transportation	2.3	6.0
Food and beverages	2.5	6.7
Entertainment	1.4	3.4
Retail	1.2	3.7
Other	0.2	0.8
Total Visitor Spending	\$ 10.2	\$ 29.1

Sources: Estimates by LAEDC

Total off-site visitor expenditures attributable to LACMA attendance are estimated to have been \$10.2 million in FY2007 and \$29.1 million in FY2013, a three-fold increase over the six years.

Visitor off-site spending of \$10.2 million in FY2007, inflation-adjusted to current dollars, equate to \$11.7 million in today's dollars. ❖

Economic and Fiscal Impact

The three components of direct activity—LACMA operating expenditures, on-site restaurant activity, and off-site spending of visitors attributable to LACMA—combine to produce a considerable economic impact in Los Angeles County, which is presented in Exhibit 3-7.

Exhibit 3-7

Economic Impact of LACMA

	FY2007	FY2013
Direct Economic Activity¹ (\$ millions):		
LACMA Direct Expenditures	\$ 53.7	\$ 77.3
On-Site Restaurant Activity	1.5	4.6
Estimated Visitor Off-Site Spending	11.7	29.1
Total Direct Activity	\$ 66.9	\$ 111.0
Total Economic Impact:		
Output (\$ millions)	\$ 166.5	\$ 254.8
Employment (jobs)	1,000	1,700
Labor income (\$ millions)	\$ 61.5	\$ 96.8
Total Fiscal Impact (\$ millions):		
State and local taxes	\$ 6.5	\$ 11.3
Federal taxes	11.9	18.8

¹ Expenditures for FY 2007 have been inflation-adjusted to current dollars
Source: Estimates by LAEDC

It is estimated that the annual operations of LACMA generated economic output in Los Angeles County of more than \$166.5 million in FY2007 and supported 1,000 jobs with labor income of \$61.5 million. By FY2013, once the first two phases of the *Transformation* were completed, the total economic impact has grown to \$254.8 million of output with 1,700 jobs with labor income of \$96.8 million.

This economic activity is estimated to have generated almost \$6.5 million state and local taxes in FY2007 and \$11.3 million in FY2013, an increase of almost 75 percent, and \$11.9 million in federal taxes in FY007 compared to \$18.8 million in FY2013.

The disaggregation of taxes by type and by level of government is shown in Exhibit 3-8.

**Exhibit 3-8
Fiscal Impact of LACMA by Type**

	FY2007	FY2013
State and Local Taxes (\$ millions):		
Income taxes	\$ 1.9	\$ 3.0
Property taxes	1.7	3.1
Sales taxes	1.7	3.2
Social insurance	0.2	0.3
Fees, fines and other taxes	0.9	1.6
Total State and Local Taxes	\$ 6.5	\$ 11.3
Federal Taxes (\$ millions):		
Social insurance	6.1	9.5
Personal income taxes	4.3	6.8
Corporate profits taxes	1.1	1.8
Other fees, fines and taxes	0.4	0.8
Total Federal Taxes	\$ 11.9	\$ 18.8

Source: Estimates by LAEDC

The largest proportional increase in state and local taxes is in sales taxes, which reflects the increase in visitor spending between the two fiscal years.

Note that while direct activity increased by approximately 65 percent between 2007 and 2013, state and local taxes have increased by almost 75 percent. The fiscal benefits of the *Transformation* have been more favorably weighted towards state and local taxes than to federal taxes.

Industry Distribution of Impacts

The total economic impact generated by LACMA affects a wide swath of industries. The distribution of the total employment impact among industry sectors for both years is presented in Exhibit 3-9.

The distribution of the jobs between the two fiscal years is quite similar. However, the large increase in visitor attendance gave rise to increases in both arts and entertainment jobs and to jobs in food services. Overall, however, the variety of industry sectors impacted by activities associated with LACMA is wide, as evidenced by the long list of sectors in the exhibit.

The values in the exhibit should be interpreted as illustrative rather than precise given model and data limitations. A description of the industry sectors is provided in the Appendix.



Stark Bar
Photo by Brant Brogan

**Exhibit 3-9
Distribution of LACMA's Total Economic Employment Impact**

	FY2007	FY2013
Construction	40	40
Manufacturing	5	10
Wholesale trade	10	15
Retail trade	60	100
Transportation and warehousing	75	165
Information	5	10
Finance and insurance	40	60
Real estate and rental	20	30
Professional, scientific technical	80	160
Administrative and waste services	30	55
Educational services	10	20
Health and social services	55	80
Arts, entertainment and recreation	375	555
Accommodation and food services	170	350
Other services	20	40
Government	5	10
Total	1,000	1,700

Source: Estimates by LAEDC

Incremental Economic Impact

It is reasonable to attribute the incremental change in the Museum's number of visitors, revenues and operating expenses between the FY2007 and FY2013 to the successful opening of the first two phases of the *Transformation*. The incremental change in the resulting economic impact is presented in Exhibit 3-10.

Exhibit 3-10

Economic and Fiscal Impact of LACMA's *Transformation*

Incremental Direct Activity¹ (\$ millions)			
LACMA Direct Expenditures		\$	23.6
On-Site Restaurant Activity			3.0
Estimated Visitor Off-Site Spending			17.4
Total Incremental Direct Activity		\$	44.1
Total Incremental Economic Impact:			
Output (\$ millions)		\$	88.3
Employment (jobs)			700
<i>Direct</i>	380		
<i>Indirect and induced</i>	320		
Labor income (\$ millions)		\$	35.2
Total Incremental Fiscal Impact (\$ millions):			
State and local tax revenues		\$	4.8
Federal tax revenues			6.9

¹ Inflation-adjusted to current dollars
Source: Estimates by LAEDC

The first two phases of LACMA's *Transformation* has elevated the Museum's cultural standing to gain national and global recognition as a center of arts and entertainment. The investment made during these two phases has increased attendance and visibility such that the Museum's annual direct activity has increased by \$44.1 million, yielding an annual increase of \$88.3 million in economic output in Los Angeles County, and 700 additional jobs annually with labor income of more than \$35 million.

State and local agencies are earning an additional \$4.8 million in tax revenues, and federal agencies are receiving an additional \$6.9 million attributable to the *Transformation*.

Return on Investment

The investment into LACMA's *Transformation* generated direct coincident return through the multiplying impacts of its expenditures in the local economy. As shown above, the investment of \$269.9 million generated an additional \$197.8 million in output in Los Angeles County. In the first full year of post-*Transformation* operations, the incremental output in Los Angeles County was \$88.3 million. Overall, then, the investment recouped itself in terms of output in Los Angeles County by the end of the first post-*Transformation* year.

From LACMA's perspective, the *Transformation* resulted in incremental annual activity of \$44.1 million. Thus the investment will pay for itself over 6 years of post-*Transformation* operations. ❖



Georges de la Tour, *The Magdalen with the Smoking Flame*, c. 1638-1640
Gift of the Ahmanson Foundation

Appendix

Description of Industry Sectors

The industry sectors used in this report are established by the North American Industry Classification System (NAICS). NAICS divides the economy into twenty sectors, and groups industries within these sectors according to production criteria. Listed below is a short description of each sector as taken from the sourcebook, *North American Industry Classification System*, published by the U.S. Office of Management and Budget (2007).

Agriculture, Forestry, Fishing and Hunting: Activities of this sector are growing crops, raising animals, harvesting timber, and harvesting fish and other animals from farms, ranches, or the animals' natural habitats.

Mining: Activities of this sector are extracting naturally-occurring mineral solids, such as coal and ore; liquid minerals, such as crude petroleum; and gases, such as natural gas; and beneficiating (e.g., crushing, screening, washing and flotation) and other preparation at the mine site, or as part of mining activity.

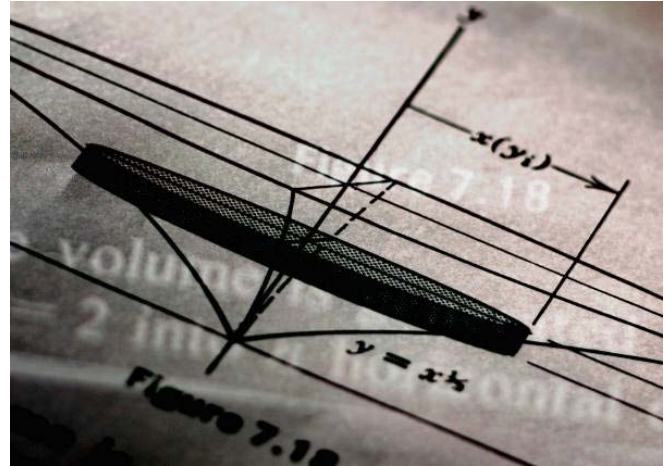
Utilities: Activities of this sector are generating, transmitting, and/or distributing electricity, gas, steam, and water and removing sewage through a permanent infrastructure of lines, mains, and pipes.

Construction: Activities of this sector are erecting buildings and other structures (including additions); heavy construction other than buildings; and alterations, reconstruction, installation, and maintenance and repairs.

Manufacturing: Activities of this sector are the mechanical, physical, or chemical transformation of material, substances, or components into new products.

Wholesale Trade: Activities of this sector are selling or arranging for the purchase or sale of goods for resale; capital or durable non-consumer goods; and raw and intermediate materials and supplies used in production, and providing services incidental to the sale of the merchandise.

Retail Trade: Activities of this sector are retailing merchandise generally in small quantities to the general



public and providing services incidental to the sale of the merchandise.

Transportation and Warehousing: Activities of this sector are providing transportation of passengers and cargo, warehousing and storing goods, scenic and sightseeing transportation, and supporting these activities.

Information: Activities of this sector are distributing information and cultural products, providing the means to transmit or distribute these products as data or communications, and processing data.

Finance and Insurance: Activities of this sector involve the creation, liquidation, or change of ownership of financial assets (financial transactions) and/or facilitating financial transactions.

Real Estate and Rental and Leasing: Activities of this sector are renting, leasing, or otherwise allowing the use of tangible or intangible assets (except copyrighted works), and providing related services.

Professional, Scientific, and Technical Services: Activities of this sector are performing professional, scientific, and technical services for the operations of other organizations.

Management of Companies and Enterprises: Activities of this sector are the holding of securities of companies and enterprises, for the purpose of owning controlling interest or influencing their management decision, or administering, overseeing, and managing other

establishments of the same company or enterprise and normally undertaking the strategic or organizational planning and decision-making of the company or enterprise.

Administrative and Support and Waste Management and Remediation Services: Activities of this sector are performing routine support activities for the day-to-day operations of other organizations, such as: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.

Educational Services: Activities of this sector are providing instruction and training in a wide variety of subjects. Educational services are usually delivered by teachers or instructors that explain, tell, demonstrate, supervise, and direct learning. Instruction is imparted in diverse settings, such as educational institutions, the workplace, or the home through correspondence, television, or other means.

Health Care and Social Assistance: Activities of this sector are operating or providing health care and social assistance for individuals.

Arts, Entertainment and Recreation: Activities of this sector are operating facilities or providing services to meet varied cultural, entertainment, and recreational interests of their patrons, such as: (1) producing, promoting, or participating in live performances, events, or exhibits intended for public viewing; (2) preserving and exhibiting objects and sites of historical, cultural, or educational interest; and (3) operating facilities or providing services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure-time interests.

Accommodation and Food Services: Activities of this sector are providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.

Other Services (except Public Administration): Activities of this sector are providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities, such as equipment and machinery repairing, promoting or administering religious activities, grant-making, advocacy, and providing dry-cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services. ❖

Study Authors

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Vice President, Economic and Policy Analysis

Dr. Cooper leads the Economic and Policy Analysis Group whose work involves research in regional issues such as economic impact studies, regional industry analysis and forecasts, workforce development analysis, and issue studies related to the *L.A. County Strategic Plan for Economic Development*. Her fields of expertise include development economics, environmental economics, regional analysis and urban sustainability.

Prior to joining the LAEDC, Dr. Cooper was a co-founder of a start-up company in Hong Kong concentrating on equity transactions software and computer accessories manufacturing, which expanded production into the special economic zone of Shenzhen, China and distributed products throughout the United States and Asia. With her business partner, she also established the first authorized Apple Computer retailer in China. She has been a lecturer at California State University, Long Beach and at the Pepperdine Graziadio School of Business and Management.

Dr. Cooper is a citizen of the United States and Canada. She earned a Bachelor of Arts in Economics from Carleton University in Ottawa, Canada, and a Ph.D. in Economics from the University of Southern California. With funding from the National Science Foundation, she earned a Graduate Certificate in Environmental Sciences, Policy and Engineering. Her current research includes industry cluster determination and performance in the regional economy, commuting and job allocation patterns, and workforce development issues.

Shannon M. Sedgwick

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In her current capacity as an Associate Economist at the LAEDC, Ms. Sedgwick develops subject-specific information and data interpretation for economic impact, demographic, transportation, industry and issue studies. She performs research, data collection and organization, analysis and report preparation. Her work focuses on demographics, industry clusters and workforce development in the form of occupational analysis. Ms. Sedgwick is also proficient at conducting geospatial analysis and has experience working with RIMS II multipliers.

Ms. Sedgwick joined the LAEDC team in June of 2008 as an Economic Research Assistant for the Kyser Center for Economic Research. In that role she assisted both Economic Research and the Consulting Practice of the LAEDC with data collection and research, managing multiple data sets covering the State of California, Southern California, its counties and their sub-regions. In addition to writing sections of LAEDC's Economic Forecasts, she was responsible for the "Business Scan" containing a collection of Los Angeles County economic indicators; the annual "L.A. Stats" report, containing the most frequently requested statistics for Los Angeles and its surrounding counties; and was a regular contributor to the weekly economic newsletter, "e-Edge."

Before joining the LAEDC, Ms. Sedgwick managed an industrial and steel supply company located in the Inland Empire. There she identified and targeted a diverse customer base, and analyzed product and customer patterns in the local industrial market to successfully increase revenues.

A Southern California native, Ms. Sedgwick received her Bachelor of Arts in Economics from the University of Southern California (USC) with a minor in Architecture. She has been a member of the national and the Los Angeles Chapter of the National Association for Business Economics (NABE) since 2008.

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Somjita Mitra joined the Economic and Policy Analysis Group as an Economist in June 2013. She is involved in planning, designing and conducting research and analysis for consulting clients and local businesses and governments, as well as for LAEDC's internal departments. Her focus is in regional analysis, economic impact studies and the industrial and occupational structure of local economies.

Before joining the LAEDC, Dr. Mitra was an Economist for a local economic research and litigation consulting company evaluating economic damages, estimating lost profits, identifying key economic issues and developing necessary analytical and empirical frameworks. Prior to this, Dr. Mitra was a Project Director for a consumer research firm in Los Angeles where she managed projects that identified and analyzed key market issues for small, local firms as well as multinational corporations.

Dr. Mitra received her Bachelor of Arts in Economics and Political Science from the University of California, Los Angeles and her Master of Arts in Politics, Economics and Business as well as her Ph.D. in Economics from Claremont Graduate University. Dr. Mitra enjoys volunteering in the local community and is actively involved in both women's welfare and animal rescue organizations. ❖

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