

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 27, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: BUDGET MEMO # 41 : ADDITIONAL INFORMATION ON FUNDING THE ARTS

Attached you will find additional information on how different cities and counties have funded the arts. This information originates from the attached 1998 National League of Cities publication.

Attachment: *Innovative and Local Funding for the Arts*, an article from the July/August 1998 issue of *Issues & Options*

cc: Mark Jinks, Assistant City Manager

Innovative and Local Funding for the Arts

Local governments appropriate more than \$650 million to the arts each year and increase aggregate support by seven percent annually. As local leaders look for new ways to fund the arts, some very innovative methods are being developed. Some innovative funding benefits include leveraging individual and private contributions; stabilizing funding to large arts institutions; providing seed money for neighborhood-based arts organizations; enabling both residents and visitors to enjoy a variety of cultural activities; and increasing access to the arts for local residents.

Sales Taxes for the Arts

In 1988, voters in metropolitan Denver, Colo., overwhelmingly approved a one-tenth of one percent sales tax increase to support scientific and cultural facilities within the six-county area. In 1994, voters extended the tax to the year 2006. The funds are administered by the Science and Cultural Facilities District and have created a tremendous funding source for the arts in Denver, with annual proceeds of \$22 million in 1994. Sixty-five percent of proceeds goes to four large regional organizations, 25 percent goes to mid-sized organizations and the final 10 percent goes to small organizations. Awarded on the basis of merit, 75 percent of the grant applicants receive funding. Administrative expenses are less than three-quarters of one percent.

Endowment Fund

In Salt Lake City, Utah, a \$2.3 million appropriation from the Utah State Legislature created the Utah Arts Endowment Fund (UAEF). The Endowment is designed to provide a reliable source of income to nonprofit arts organizations through interest earned on state-appropriated funds and matching grants. The program is the first of its kind in the nation and is jointly run by the Utah Arts Council, the State Treasurers Office, and the State Division of Finance. The UAEF establishes an account for each participating arts organi-

zation, which receives monthly statements and an annual check for interest earned. So far, nearly 100 arts organizations have been able to meet their fund-raising goals and establish permanent endowment accounts.

Real Estate Taxes for the Arts

Since 1971, St. Louis, Mo., has used a portion of its real estate tax to fund the city's Art Museum, Botanical Garden, Museum of Science and Natural History, St. Louis Science Center, and Zoo. The Metropolitan Zoological and Museum tax district was approved by voters in the city and county in order to keep the major cultural institutions free to the public. In 1994, the tax generated \$36 million to the five institutions. Eighty-two percent of the revenue is generated by county property owners with the balance coming from the city.

Grants to Non-501(c)(3) Organizations

In Santa Clara County, Calif., 35 percent of the nation's grant-making local arts agencies provide grants to small, neighborhood-based arts organizations that do not have 501(c)(3) status. This tax-exempt designation is often required to receive public and private grants. In 1993, the Arts Council of Santa Clara County awarded \$16,000 to 15 arts organizations without 501(c)(3) status. Since these organizations are not tax-exempt, all are mailed a tax form at the end of the year, so that taxes can be paid on the grant.

Local Arts Agency Funding

The Arts & Science Council of Charlotte/Mecklenburg County, N.C., is one of the nation's 3,800 local arts agencies. It is a private, nonprofit organization recognized by the City of Charlotte as its designated arts agency. Of the Council's \$8 million budget, \$4 million comes from the city and county governments. Additional sources of revenue include individuals, local corporations and foundations, the state arts agency, and the National Endowment for the Arts.

The funds are used to support local artists, arts and science organizations, cultural tourism activities, artists in schools, art in public places, and other community cultural enrichment activities.

The Salt Lake City Arts Council is an agency of the city government. The Arts Council has a \$500,000 budget, of which 75 percent comes from the city, with the balance coming from contributed and earned income. The Arts Council awards grants to artists and arts organizations who must match the grant one-to-one. This, in effect, doubles the impact of the city's grant on the community. Other community services include an arts-in-education program, which brings the arts to students in the schools, free public concerts, public art, and an ethnic arts festival.

The Department of Arts and Cultural Affairs is a city agency which serves the metropolitan area of San Antonio, Tex. The agency had a \$3.9 million budget in 1995, of which 95 percent came from the City of San Antonio. More than \$2.8 million is used to fund local artists and arts organizations. The Department is very involved in community development and supports arts programs which address many community development issues such as youth-at-risk, crime prevention, cultural and racial tolerance, economic development, public housing, illiteracy, and substance abuse. In 1995, the agency received \$81,000 from the National Endowment for the Arts. ❖

CONTACT: *Americans for the Arts*, 1000 Vermont Avenue, NW, 12th Floor, Washington, DC 20005; (202) 371-2830.

Reprinted with permission from *Americans for the Arts*.

Hotel-Motel Taxes and Fund-Raising for the Arts

The Hotel-Motel Tax

The hotel-motel tax has emerged over the last 15 years as a means to finance activities which encourage tourists and visitors and is considered the major generator of tourism taxes. A 1992 survey showed that 42 states have a local option accommodation tax, meaning that municipalities and/or counties in those states can elect to add a hotel tax. The local tax is usually collected and disbursed by that jurisdiction.

Hotel-motel taxes, together with other tourism taxes, historically have been used for a broad range of services and activities – from operating support for visitors' bureaus to funding for summer concerts and fireworks displays. More recently, they have been established as economic development tools to build tourism infrastructure. This might include convention centers, sports stadiums, and cultural facilities.

For the arts, hotel tax funding can be dedicated to a specific facility, re-granting programs, or events with some relation to local tourism. Funds can be forwarded to a local arts agency or paid directly to arts presenters/producers by a local commis-

sion which manages fund distribution. In addition, the level of funding can be fixed by statute or be left at the discretion of the taxing body.

Conclusions

Creating, increasing, or dedicating a room tax to the arts has proven to be a popular means to fund the arts as a basic city or county service. Because the source of these funds can be specifically identified and then dedicated to a particular purpose, they are politically attractive, as the tax is not gathered from local residents/taxpayers/voters but from renters of a city's local hotel rooms. This dedicated revenue stream is also less competitive than a city's general fund, which supports core services like policing, fire protection, and garbage collection.

Obtaining a portion of a local hotel tax requires a strong argument that the arts contribute to local tourism, either through arts programs or facilities. In order to make this argument, a close relationship with the local tourism industry is mandatory. This is a real challenge, as the hotel operators who

collect the tax must be convinced of its long term benefit to their business.

The downside to a dedicated income stream is that funds can vary from year to year, in relation to the health of the local tourism business. Yet, if properly managed by a local arts agency as one of several funding sources, room tax revenue can provide meaningful support for local arts groups, as well as capital and/or operating funds for arts facilities.

Getting Started

For the local arts agency seeking hotel-motel tax funding, here are some preliminary steps:

1. Create a working group with community-wide participation to investigate and pursue hotel-motel tax funding.
2. Research the local tourism industry and the broad role played by the arts in bringing visitors to the community.
3. Contact your state travel office or the National Conference of State Legislatures to determine in which states tourism taxes are authorized.
4. Contact Americans for the Arts for sample local hotel-motel tax legislation.
5. Using a strong theme, implement a campaign strategy and build community support. In St. Louis, Mo. – to demonstrate that it is out-of-towners who pay the tax and not voters – supporters used the slogan, "You never paid it, you never will!"

Examples & Samples

Dade County, Fla.

The Dade County Cultural Affairs Council developed a strong relationship with the local tourism industry. Representatives from the council and the Convention and Visitors Bureau sit on each others' committees and boards. Funding came from the establishment of a 2 percent bed tax, 20 percent of which is dedicated to the Dade County Cultural Affairs Council. Another 60 percent goes to the county-wide convention and visitors bureau, and the balance goes to the City of Miami for renovations to the Orange Bowl. Bed tax revenues to the council in 1995 totaled \$1.5 million, or 35 percent of the annual budget. The funds support a wide range of cultural activities. Funds used to support the council's annual administration and operations are disbursed as part of the council's \$2.5 million in grants to nonprofit cultural organizations and individuals. Each year more than 700 individuals and organizations apply for competitive grants, which are awarded to about 350 applicants.

CONTACT: Dade County Cultural Affairs Council, 111 Northwest First Street, Miami FL 33128; (305) 375-4634.

United Arts Funds: Fund-Raising for the Arts

United Arts Funds (UAFs) continue to be an effective means of supporting the arts in communities across the country, according to a report published by Americans for the Arts. In 1997, researchers report that 59 UAFs raised an aggregate \$83.5 million through their campaigns in 1996. Corporations continue to be the largest source of campaign revenue for UAFs, donating a total of \$42.5 million in 1996 (50.9 percent). Individuals donated \$24.4 million to

support their local campaigns, \$12.9 million of which was donated through workplace giving programs.

Americans for the Arts defines a UAF as a combined or federated appeal for arts funding conducted annually to raise unrestricted money on behalf of three or more arts, culture, or science organizations. The UAF movement began in 1949 when civic leaders in Cincinnati and Louisville determined that community-wide campaigns, loosely based on the United Way model, could raise substantially more money to provide ongoing operating support to their major arts institutions. Over the past 48 years, more than 90 U.S. communities, both large and small, have established UAFs.

Unlike United Way, no UAFs are exactly alike. They are custom-made to meet the unique needs and resources of the community which they serve.

UAFs work to broaden the base of support for the arts, promote excellence in the arts and arts management, and ensure that arts organizations are financially stable. While UAFs are different, they do share some common characteristics:

- Most UAFs are also the local arts agency for their community.
- UAFs are often initiated by local business leaders seeking to minimize the number of individual funding requests and ensure that arts organizations meet standards of quality and financial stability.
- UAFs primarily raise unrestricted operating support for the organizations that they fund, though many also raise funds for special projects or to address specific issues within the community (e.g., marketing, stabilization, arts education).
- UAFs have a broad-based Board of Directors composed of community leaders who are able to engage in one-on-one fund-raising.

Report Findings

The 59 responding UAFs reported a total of \$83.5 million in 1996 campaign revenues. Thirty-eight of the respondents have provided data about their UAF campaign annually since 1990. Their consistent responses plus the fact that they represent \$76.8 million of the \$83.5 million reported in this year's analysis (92 percent) makes this

group a reliable indicator of the year-to-year changes in UAF campaigns:

- Campaign revenue increased from \$74.2 million in 1995 to \$76.8 million in 1996 (3.47 percent).
- Average budgets grew from \$1.95 million in 1995 to \$2.0 million in 1996 (3.47 percent).
- The year 1996 marks the third consecutive year of campaign increases. ❖

CONTACT: *Americans for the Arts, 1000 Vermont Avenue, NW, 12th Floor, Washington, DC 20005; (202) 371-2830.*

Reprinted with permission from *Hotel-Motel Taxes for the Arts*, a brochure published by Americans for the Arts (formerly the National Assembly of Local Arts Agencies) and the Institute for Community Development and the Arts.

Examples & Samples

Delray Beach, Fla.

In a public-private partnership, Delray Beach has rehabilitated a closed historic public school complex. The Old School Square Cultural Arts Center consists of three buildings in Mediterranean Revival style. The project began when the school was closed in 1985 and the mayor formed a task force to study possible cultural and community uses. The task force turned into the Old School Square Foundation. It set goals to restore and use the structures, to preserve property, and to create a facility that serves as an anchor to the central business district and a catalyst for investment. The city obtained grants from Florida's Division of Historical Resources and Division of Cultural Affairs to finance the rehabilitation. The city reports that in addition to physical improvements of the property and varied cultural programming offered by the center, the project has helped break down cultural barriers by providing many minority students with their first exposure to the arts.

CONTACT: *City Hall, City of Delray Beach, 100 NW First Avenue, Delray Beach, FL 33444; (407) 243-7000.*

San Francisco, Calif.

In San Francisco, the \$88 million Center for the Arts consists of a gallery, a 755-seat performing arts theater, and a 4.5-acre park. The San Francisco Redevelopment Agency (SFRA) funded the construction and maintenance of the buildings. The three-story gallery has no permanent collection and focuses on Northern California artists. The diversity of the Bay Area is reflected through the equal representation of all races. The vision for the Yerba Buena theater is to attract traditional and contemporary dance, music, and theater that addresses various human issues with cross-generational and cross-cultural programs.

CONTACT: *City Hall, City of San Francisco, City Hall Room 200, San Francisco, CA 91340; (415) 554-4000.*

Mesquite, Tex.

Opening the Mesquite Arts Center, which attracted 100,000 people in its first year, has boosted interest in local arts activities and is helping to change the city's image. It has a 500-seat concert hall and a 100-seat theater, which is filling a critical shortage of professional theater space in the area. The Mesquite Community Theater has seen attendance at its performances triple since using the center's stage, and local schools have made use of the facilities for performances. The center has exhibition space and hosts professional art exhibits. Other nonprofit groups heavily use the center for events and meetings. In addition, the \$4.3 million municipal arts center has rehearsal and office space, and a 7,000 square-foot courtyard.

CONTACT: *City Hall, City of Mesquite, P.O. Box 850137, Mesquite, TX 75185-0317; (214) 288-7711.*