



## **Beyond State General Funds Dialogue Session**

Friday, October 18, 2013

Facilitator: Kelly Barsdate, Chief Program and Policy Officer, NASAA

Presenter: Henry Clapp, Research Associate, NASAA

See the [presenters' bios](#) under Friday Afternoon Dialogues.

Presentation: [Beyond State General Funds](#)

### **Session Overview**

By far the largest funding source for state arts agencies—currently and historically—is state general funds. However, state legislatures have enacted a variety of other policies to provide support. Interest in these policies is on the rise.

During this dialogue session, Kelly Barsdate facilitated a conversation in which state arts agency leaders provided examples and strategies for securing dedicated revenue sources in their respective states. Henry Clapp then provided an overview of NASAA data detailing current dedicated revenue sources for state arts agencies. Armed with this information from across the country, session participants explored the status, risks, returns and feasibility of alternative funding strategies.

### **Funding Mechanisms**

First, state arts leaders in the room reported on a variety of funding mechanisms as implemented in their states, such as hotel and motel taxes, special sales taxes, license plate revenues, lottery and gaming taxes, business filing fees, income tax checkoffs, percent for art funds, and resource severance taxes. The nuances of these policies were explored, and the conversation also offered a number of interesting threads:

**State relationships with local dedicated revenue streams:** Many session participants mentioned local cultural funding mechanisms as being important to the overall arts funding ecosystems within their states. For example, while hotel and motel taxes are not particularly common at the state level, participants mentioned many examples of local hotel and motel taxes. A number of dedicated sales taxes at the local level also were cited as being significant contributors to arts funding in major metropolitan areas. Examples such as cigarette taxes in Cuyahoga County in Ohio, the Scientific and Cultural Facilities District in Colorado, and the zoo and

museum tax in St. Louis, Missouri, were brought up as local measures generating large amounts of revenue. This led to the discussion that in many cases, statewide legislation is needed to enable local government tax measures.

**License plates and income tax checkoffs:** Session participants discussed the varying levels of success that they have had with implementing arts license plates and income tax checkoffs. A few examples:

- Sales of California's iconic license plate designed by artist Wayne Thiebaud contribute to a majority of the California Arts Council's total revenue.
- In Tennessee, a unique specialty plate mechanism allows the arts commission to receive a portion of funding for any State of Tennessee specialty plate, regardless of the theme of the plate.
- While income tax checkoffs were reported as not having much of an impact in several states, California reported that they are seeing more success after rebranding the checkoff as a way for taxpayers to "keep arts in schools."

### **Alternative Funds versus State General Funds**

Henry Clapp presented some of the hard data that NASAA collects on dedicated revenue streams for state arts agencies. The research and [slide presentation](#) added to the theme that while dedicated funds are becoming used more frequently, state general funds are still the primary source of state arts agency revenue when aggregating all states and jurisdictions.

### **Cautionary Tales**

All funding mechanisms require protection. Although dedicated revenue streams are sometimes characterized as less volatile than general funds, these streams typically still need to be appropriated by state legislators. In addition, the legislation governing dedicated funds can be altered. And as is the case with state budgeting mechanisms, dedicated funds are subject to the ups and downs of the economy. The following example spoke to the volatility of dedicated revenue streams:

**Out-of-state entertainment taxes in Missouri:** This tax on professional entertainers, including athletes who perform within the state of Missouri, has funded the Missouri Cultural Trust Fund. Over the past several years, however, funds have not been added to the trust and the state legislature has directed the agency to spend down the corpus.

### **Aspirations**

During the course of the discussion, states identified a number of ways to improve the overall funding picture along with ideas for implementing new dedicated revenue streams:

- Where can we find dollars in state agencies outside of the arts that can be used for arts initiatives? How can we partner with transportation, housing, health and human services, economic development, and tourism?
- How can the arts become a powerful public interest group that demands attention from legislators?
- We know the arts generate tax revenues for states and localities. How can we put tax dollars back into investments in the arts?
- How do we make the case that line-item funding would be better administered through state arts agencies?
- We need to be perceived as "entrepreneurial" agencies in generating earned income. How can we do this?
- Is our best bet to focus on increasing general fund appropriations?

### **Success in Renewing General Fund Appropriations**

In many states that are beginning to see a rebound in revenues, general funds have been the primary, if not sole, contributor to these increases. Examples of this came from Maryland, Michigan and Ohio. Ohio offered an inspirational approach to increasing general fund revenues by invigorating advocacy work to make the arts a force to be reckoned with in the statehouse.

Wyoming, echoed by several other states and NASAA, expressed concern about divorcing arts appropriations too far from the state general fund. Why diminish the ownership stake in the arts for state legislatures? Keeping the arts in the general fund galvanizes advocacy and makes clear that the arts serve core functions within government that are worthy of recurring—and growing—investments.

### **Earned Income**

Participants reported both pressure and aspirations to increase the revenues that they receive as earned income. Since many cultural organizations such as museums and theaters receive substantial revenue through admissions and ticket sales, public arts agencies also may be perceived to be able to earn income. While earned income is not a substantial funding mechanism for state arts agencies, public agencies are trying to be creative about how to make this part of their budgets. Session participants reported several challenges to doing so, such as:

- finding an account to receive earned income that is protected from the larger pot of state general funds;
- public records rules that make it a challenge to sell any software coding developed by state agencies;
- an unwillingness by the public to pay for services that they expect to receive for free;
- small price points and underdeveloped marketing for service fees that lead to unsubstantial revenue gains;
- difficulty in reconciling mission-driven initiatives to increase access to the arts with implementing financial barriers to access through fees for service.

## **Recommended Resources**

NASAA's biannual state arts agency revenue surveys provide detailed information on legislative appropriations and dedicated funding streams. Research reports and analysis stemming from these surveys, including detailed breakdowns of dedicated funding mechanisms, can be found on the [Funding Page](#) of NASAA's website.

NASAA members can request customized comparative funding reports or more detailed analysis for their state by contacting [Ryan Stubbs](#) or [Henry Clapp](#).