

STATE POLICY BRIEFS

Tools for Arts Decision Making

National Assembly of
State Arts Agencies
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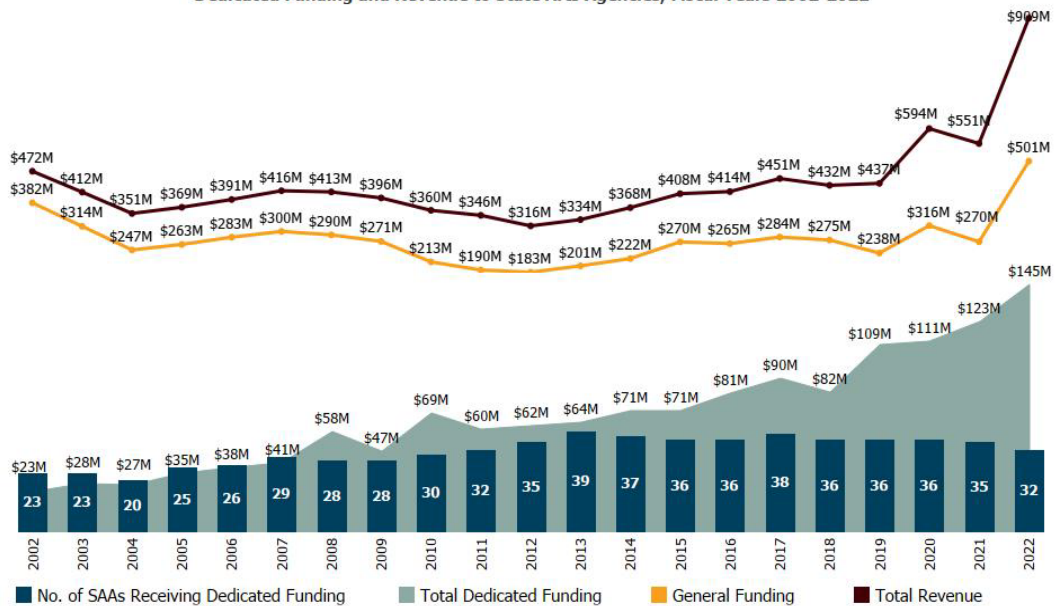
STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

State legislatures use a mixture of strategies to provide public support for state arts agencies (SAAs). By far the largest state funding source for SAAs—currently and historically—is state general funds. However, state legislatures have enacted a variety of other legislative strategies to provide additional support. Examples of these funding mechanisms include dedicated taxes, sales of specialty license plates, and gaming revenues. Outside of state funds, some state arts agencies have secured private funding, earned income or federal support (other than National Endowment for the Arts funds) to supplement their state revenues. This policy brief provides a short overview of this array of public and private funding strategies, beyond general fund dollars, as well as tips for states considering similar policies in the future.

Legislative strategies

Dedicated funding strategies have become more common over the past several decades. In fiscal year 2002, 23 SAAs received dedicated funding, totaling \$23 million; in FY2022, 32 state arts agencies received a total of \$145 million in dedicated funds (a 530% increase). Dedicated funds represent 40% (median) of these 32 SAAs' total revenues. Some states receive 100% of their state funds from dedicated revenues while others receive 0.1%. State general funds—the undedicated state funds from which the ongoing expenses of state government are paid—remain the primary funding source for state arts agencies. For the 56 state and jurisdictional arts agencies, general funds represent 55% of total revenue (82% of base legislative appropriations), while dedicated funds represent 13% (23.7% of base appropriations).

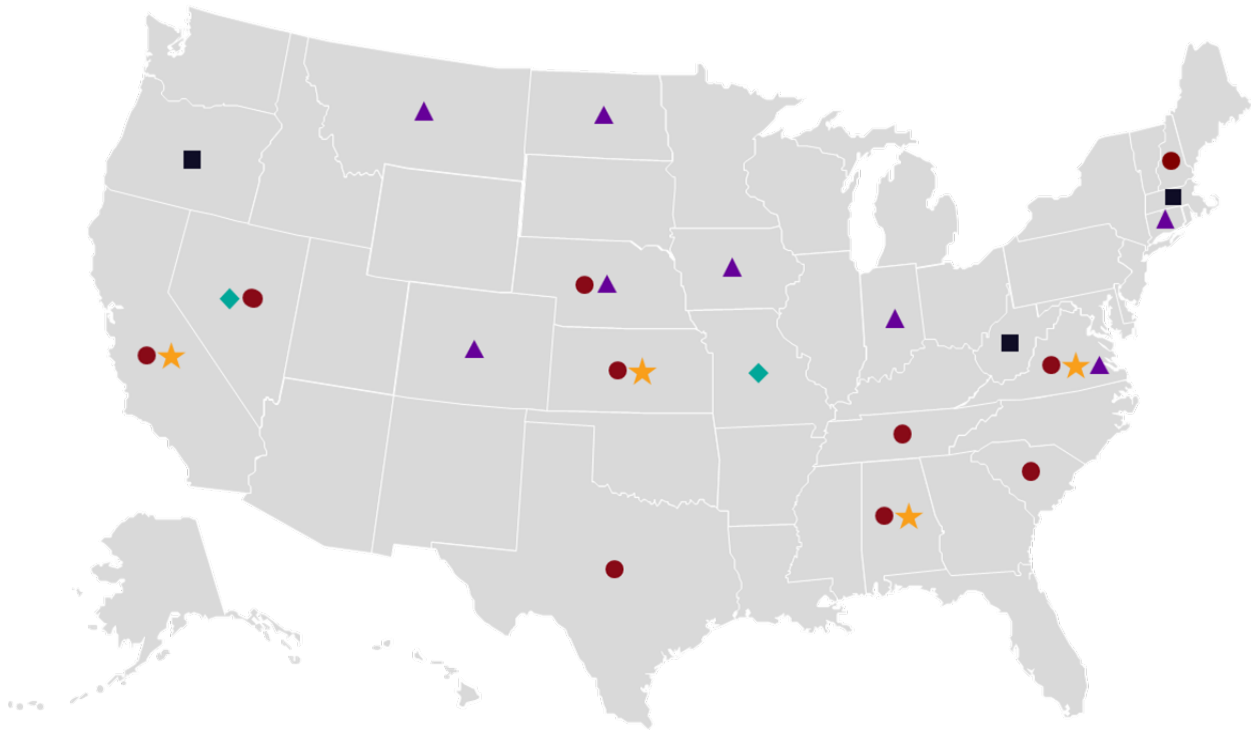
Dedicated Funding and Revenue to State Arts Agencies, Fiscal Years 2002-2022



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SAA's Receiving Revenue from Dedicated Funding Mechanisms, Fiscal Year 2022

- ◆ Special Taxes and Fees
- License Plates
- ▲ Interest from Public Cultural Trusts
- Lotteries and Gaming
- ★ Tax Checkoffs



Note: This map reflects legislative vehicles only (not privately held trusts or other nonstate funding mechanisms). It reflects only those public mechanisms yielding actual revenues in FY2022; additional mechanisms are present in some states that do not currently generate funds for their state arts agency. Contact NASAA for the complete revenue details for each state arts agency.

Examples of legislative strategies to support SAAs other than the use of general funds include:

- **Special Taxes and Fees:** While local tax initiatives are commonly used to fund municipal and county arts, they are not commonly used to fund SAAs. As of FY2022, 10 SAAs received revenues from dedicated taxes or fees. Examples include hotel/motel fees (Nevada and New Jersey), a percentage of state sales tax (District of Columbia, Minnesota and Mississippi), a conservation tax (Arkansas), corporate filing fees (Arizona), recordation fees (Delaware), and income taxes on out-of-state entertainers and athletes (Missouri). Admissions tax programs—adding an extra fee to enter events and performances—are used to fund the SAA in Nevada. South Dakota imposes a general tourism tax on lodging, services and attractions.
- **Lottery and Gaming Taxes:** Some states have taken steps to legalize gambling as a means of boosting state revenue. This money has helped fund SAAs in 7 states. Gaming revenues are significant sources of income for the SAAs in Iowa, Kansas and West Virginia

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and provide modest revenue in Wisconsin. In FY2016, Maryland started to receive revenue from the state's admission and amusement tax (on electronic bingo and electronic tip jars). In addition, since 2020, the state lottery and gaming tax revenue have become a new source of funding for arts and culture in Massachusetts and Oregon, respectively.

- **Specialty License Plates:** Some states fund SAAs with special automobile license plate programs. Among the 16 states currently involved in such programs, in FY2022, only 10 states report receiving license plate funds. Specialty plate revenue is a major source of funding for two SAAs, California and Tennessee. While other states receive in the range of \$9,000 to \$140,000 from license plate programs, California and Tennessee receive more than \$2 million in these funds. For Tennessee, 67% of the agency's total revenue comes from license plate programs.
- **Income Tax Checkoffs:** In FY2022, four SAAs (Alabama, California, Kansas and Virginia) received funds from income tax checkoffs, which permit state residents to earmark dollars for the SAA on their state income tax return. Since 2015, California has consistently recorded substantial returns via this mechanism (\$250,000), but this is not the norm. Receipts ranged from \$12,000-\$65,000 for the other states. Virginia's returns have been slowly increasing as well: from 2011 to 2016, it remained level at \$8,000, it climbed in 2017 to \$12 million, and reached \$65 million in 2022. Several states have discontinued previous arts checkoff mechanisms due to low funding returns.
- **Bond Issues:** A handful of states have passed state level bond issues related to the arts, usually associated with capital improvement programs for cultural facilities. Bonds are different from other mechanisms discussed in this brief given that they are a finite issuance and not an ongoing legislated funding mechanism. However, bonds can play a key role in providing dedicated state funding for the arts, specifically for capital projects. A recent bond issue approved by voters in Rhode Island provided a total of \$30 million in capital funds for arts organizations from FY2016-2022. Other examples include Massachusetts (state capital bonds supported the Cultural Facilities Fund) and Mississippi (general obligation bonds supported the Building Fund for the Arts). Bond mechanisms typically are enacted for a limited duration to achieve specific infrastructure goals.

Cultural Trusts: A Blended Approach

Statewide arts trusts are active in 12 states, but currently supply funds to SAAs in only 6 states. Most of these trusts are created using a mixture of public infusions and private contributions. Some endowments build their principal through special state tax mechanisms (for example, Montana's coal extraction tax) or state tax credits to incentivize private contributions to arts organizations (as is the case in Oregon). As is true for any dedicated mechanism, cultural trusts can be defunded or eliminated. The Iowa state legislature recently eliminated the Iowa Cultural Trust to address a projected state budget shortfall.

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Numerous public financing models always have been available to states, but general fund dollars have remained the primary source of funding for most SAAs, although these funds remain volatile. While acknowledging these challenges, arts leaders and legislators cite the importance of the state arts agency's participation in the general budgeting process because it allows for public consideration of a state's cultural needs. Annual or biennial general fund budgeting for the arts visibly connects arts allocations to citizen benefits, encourages public input and ensures alignment of a state's current resources with its policy priorities.

Each state's policy environment is unique, and special financing mechanisms are more feasible in some states than others. Furthermore, long-term structural pressures on overall state budgets have increased pressure on state general funds. With these factors in mind, 12 state arts agencies reported that special mechanisms supply 50% or more of their agencies' state government funding in FY2022.

SAA's Receiving at Least 50% of State Funding from Dedicated Revenue Mechanisms Fiscal Year 2022

State	Funding Mechanism	FY2022 Funds to SAA from Mechanism	Mechanism's % of Total State Funds to SAA
Arizona	Business license filing fees	\$1,200,000	100.0%
Kansas	Gaming revenue, license plates, tax checkoffs	\$560,000	100.0%
Missouri	Entertainers and athletes tax	\$7,078,930	100.0%
South Dakota	Portion of tourism tax	\$1,056,693	100.0%
District of Columbia	Portion of sales tax	\$37,522,544	99.8%
Louisiana	Office of Tourism, Interagency Transfer	\$1,860,739	85.7%
Minnesota	Portion of sales tax	\$34,372,000	82.0%
Tennessee	License plates	\$7,537,800	73.3%
Nevada	Portion of room tax, admission tax, license plates	\$1,370,756	68.3%
Arkansas	Portion of tax collection	\$879,004	64.8%
New Jersey	Hotel/motel tax	\$31,900,000	51.9%
West Virginia	Lottery proceeds	\$784,500	50.5%

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nonstate sources of funds

In addition to the state government mechanisms outlined above, some SAAs have secured resources from private, earned or federal sources. For instance:

- **Earned Income:** State arts agencies reported a total of \$1,927,177 from workshop registration fees, product sales, auctions and other earned sources in FY2022. This amount represents 0.21% of total SAA revenue in FY2022.
- **Private Support:** Foundation support to 13 state arts agencies totaled almost \$5.9 million, about 0.7% of all SAA revenue, in FY2022. Corporate and individual donations to state arts agencies in the same year totaled \$117,950 (0.01% of all SAA revenue).
- **Non-National Endowment for the Arts Federal Funds:** SAAs in compliance with their Partnership Agreements receive funding from the National Endowment for the Arts, but a few state arts agencies have secured significant funding from other federal agencies. Past sources have included the U.S. Department of Agriculture, the U.S. Department of Education, the U.S. Department of Health and Human Services, and the U.S. Department of Housing and Urban Development. These funds tend to be limited in duration, restricted to specific uses and competitive.

Private Funding in Brief

- 15 state arts agencies reported the receipt of private funds (grants or contributions) in FY2022. These funds accounted for 0.7% of total state arts agency revenue.
- Private funding has not expanded over time. Private funding comprised 0.4% of total state arts agency revenue in FY2011 and has remained relatively consistent during the past decade.
- Some state agencies face statutory prohibitions on accepting private contributions. As a donor and service provider to their grantees, SAAs are also concerned about competing with their grantees for fund development.

policy considerations

Know your state statutes. Existing state laws shape the options available for arts funding. For instance, some state agencies are prohibited from accepting private contributions or earning income. Other states have specific restrictions on how and when new tax laws may be introduced.

Advocacy remains a necessity, regardless of an SAA's revenue mix. To date, no dedicated funding mechanism has automatically protected an SAA from budget cuts. Also the mere presence of a policy designating SAA funds does not guarantee these funds will be allocated to the arts, especially during a fiscal crisis. In fact, some special arts funding mechanisms have

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become targets for funding "raids" during tough times. The need to systematically educate key decision makers never wanes.

Every funding source has vulnerabilities. Ask yourself the following questions: Will special funding policies or allocation levels be subject to a sunset review? Would a strategy that is advantageous in the current political climate become a liability if the partisan balance in your legislature changes? Does the supply of your funds depend upon the demand for some other state service that could diminish over time? What other interest groups may attempt to redirect the funds for different purposes? Assess the implications of various scenarios and strategize your advocacy accordingly.

Know your legislature's views on earmarking taxes. Earmarking taxes is a popular idea for funding special causes, especially during times when legislators want to reduce spending pressure on the general fund. But not all policymakers or fiscal managers view earmarking as desirable policy, arguing that restricting revenue short-circuits the ability of lawmakers to adjust spending and to put funds where the need and potential impact are greatest. Know where your decision makers stand on the issue before introducing arts legislation.

Carefully assess an initiative's potential returns. Although 12 state arts agencies secure sizable portions (50% or more) of their budgets from dedicated revenue, most initiatives deliver relatively small amounts. For instance, only 5 of 16 SAA license plate programs yielded more than \$100,000 for the state arts agency in FY2022. The amount of interest state arts agencies received from cultural trusts ranged from \$11,000 to \$861,472, with a median of \$442,937. Modest funds certainly can be put to meaningful use, but weigh the resources needed to promote a special funding initiative against its likely returns.

Consider whether you are perceived to be "competing" with constituents for funds. This is of special concern when seeking private contributions or earned income. Communicate clearly about the collective benefits of SAA fundraising activities, and consider targeting donors that previously have not supported the arts.

Be sure the SAA has a hand in developing legislation. SAAs can provide accurate information about statewide needs, preexisting services and other factors influencing the long-term effects of a new initiative. SAAs also ensure that funds are distributed accountably.

Prepare for the consequences of success.

Competition is a given in public funding. A highly profitable mechanism may become a target for other causes seeking support. It may be useful to choose a revenue source to which no other agencies have a

Any state arts agency considering a special funding initiative is encouraged to consult with NASAA. Contact [Ryan Stubbs](#) or [Mohja Rhoads](#) for help in comparing policy alternatives and for referrals to colleague states.

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current claim, or to create a coalition of partners that advocate together for a shared revenue enhancement.

success factors

States that successfully have enacted dedicated revenue strategies offer the following advice:

Focus on a policy goal or principle that can garner bipartisan support.

In a polarized political environment, new initiatives can easily succumb to partisan politics. A policy that engages lawmakers from all sides will evoke consensus values and offer everyone a "win." Consensus points will vary from state to state, but may be found on issues such as improving education, supporting veteran communities, reaching BIPOC (Black, Indigenous and/or people of color) populations, enhancing rural development, creating jobs, stimulating tourism or streamlining government services.

Prepare to fail and to be in it for the long term.

For instance, the Minnesota Land and Legacy Amendment (dedicating a portion of a state sales tax to support culture, heritage and natural resources) took more than a decade of advocacy work to secure passage. Sometimes more than one bill needs to be introduced over a period of years before legislators and a constituency unite behind a single plan. This means sustaining coalitions of partners as well as educating legislators early, so that they can address your issue throughout their term of service. Be deliberate about mining lessons learned from failure in order to empower success later on.

Cultivate strategic partners that bring political clout.

Dedicated funding streams are not often passed solely to benefit a state arts agency. When appropriate, the arts can be part of broader coalitions benefitting from dedicated mechanisms. Strategic partners that fit into the same public value equation as the arts, such as natural and historic resources, economic and community development, creative industries, tourism and others, can be either competitors or collaborators for limited public funds.

Timing is everything. Introduce legislation when conditions are favorable.

Look for times when the arts and business communities can unite in support of your idea and when key state legislators are receptive to a new, innovative strategy. This may mean trying to capitalize on an existing budget surplus, waiting an extra year until a budget crisis passes or acting once the leadership of an important committee changes. Don't move ahead until key policymakers have the influence and willingness to help you craft a winning strategy.

Emphasize the unique value of each funding stream.

Clearly articulate the benefits that new funds will provide to the public, and why sustaining each component of your agency's revenue mix is necessary to meet the needs of the state as a

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whole. If possible, quantify these benefits by showing return on investment using data such as constituents served and economic advantages.

Make the initiative easy to understand.

Ensure that the purposes of the funding are explicit and the mechanisms are well understood. High levels of transparency and inclusion in the process used to allocate the resulting dollars also help to earn support.

Involve the arts community and other key stakeholders in planning.

Cultural groups that have been involved in planning and goal setting can be ardent advocates—or opponents. Articulate how the funds you are seeking will benefit the arts community. Engage multiple constituencies (including urban and rural, people of color, small organizations and large) to prevent the perception of any single group receiving unfair advantages.

Include a plan for staffing and funding the administrative needs of the initiative.

Many kinds of dedicated funding mechanisms require financial management, marketing or other administrative efforts to succeed. Provide for those necessities in the legislation.

Make sure your legislature hears supportive arguments from many different voices.

Coordinate communications, and stay on top of the messages that decision makers hear. Establish partnerships that offer the influence needed to get legislation passed.

Learn from the experience of other agencies and states.

Examine models from your own state and others. Interview arts leaders in other states who have observed the long-term effects of various arts funding strategies and can advise you on the challenges they have encountered. And be sure to secure the latest information from NASAA.

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acknowledgments

This policy brief was first released in 2007. This 2022 update is authored by Mohja Rhoads and Nakyoung Rhee. The State Policy Briefs series editor is Kelly J. Barsdate.

The information contained in this brief is based on a variety of sources, including quantitative data secured from NASAA's biannual appropriations and revenue survey of state arts agencies, reviews of existing state statutes, and dialogue with state arts leaders. See the NASAA website for further information on [dedicated revenue](#).

State Policy Briefs synthesize research on key issues affecting the arts and state arts agencies. Designed to inform decision making at the state level, this series provides information on state arts agency policy alternatives and innovative strategies for serving the public. For information on ways to build political and constituent support for the arts, consult NASAA's [advocacy tools](#).

the national assembly of state arts agencies

The National Assembly of State Arts Agencies (NASAA) is the nonprofit, nonpartisan membership organization that serves the nation's state and jurisdictional arts agencies. NASAA helps state arts agencies fulfill their many citizen service roles by providing knowledge services, representation and leadership programs that strengthen the state arts agency community. NASAA also serves as a clearinghouse for data and research about public funding and the arts. For more information on the work of state arts agencies, call 202-347-6352 or visit nasaa-arts.org.

The work of NASAA and of state arts agencies is supported and strengthened through funding and programming partnerships with the National Endowment for the Arts. These funds support in part NASAA's collection of quantitative data about state arts agency finances.