

STATE POLICY BRIEFS

Tools for Arts Decision Making

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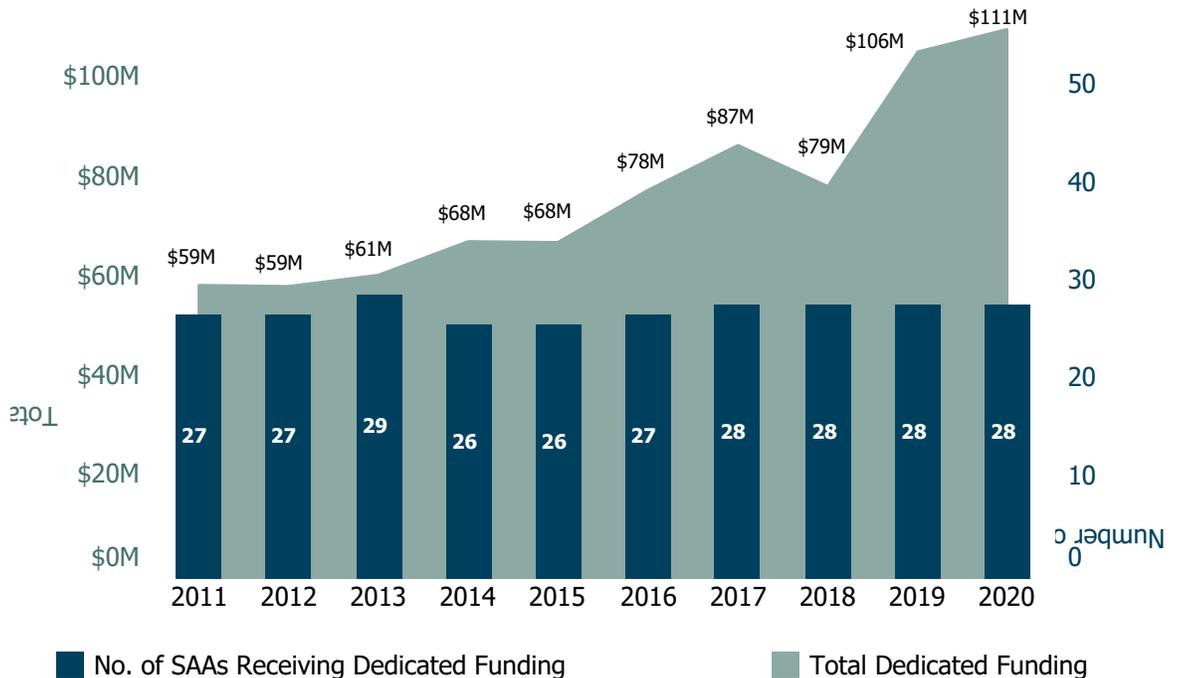
STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

State legislatures use a mixture of strategies to provide public support for state arts agencies (SAAs), diversify their resources and accomplish specific policy goals. 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 funding mechanisms to provide public-sector support for their SAAs. Examples of such mechanisms include dedicated taxes, sales of specialty license plates, gaming revenues and other public funding vehicles. In addition, 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 the array of public and private strategies, beyond general fund dollars, currently in use for funding SAAs, as well as tips for states considering similar policies in the future.

legislative strategies

Dedicated funding strategies have become more common over the past 10 years. In fiscal year 2011, 27 SAAs received dedicated funding, totaling \$59 million. In FY2020, 28 state arts agencies received a total of \$111 million in dedicated funds, providing a median 43% of these agencies' total state funding. However, state general funds—the undedicated state fund from which the ongoing expenses of state government are paid—remain the primary funding source for state arts agencies. Fifty out of 56 state and jurisdictional arts agencies received state general fund dollars in FY2020, and these funds comprised a median of 74% of all state funding going to state arts agencies.

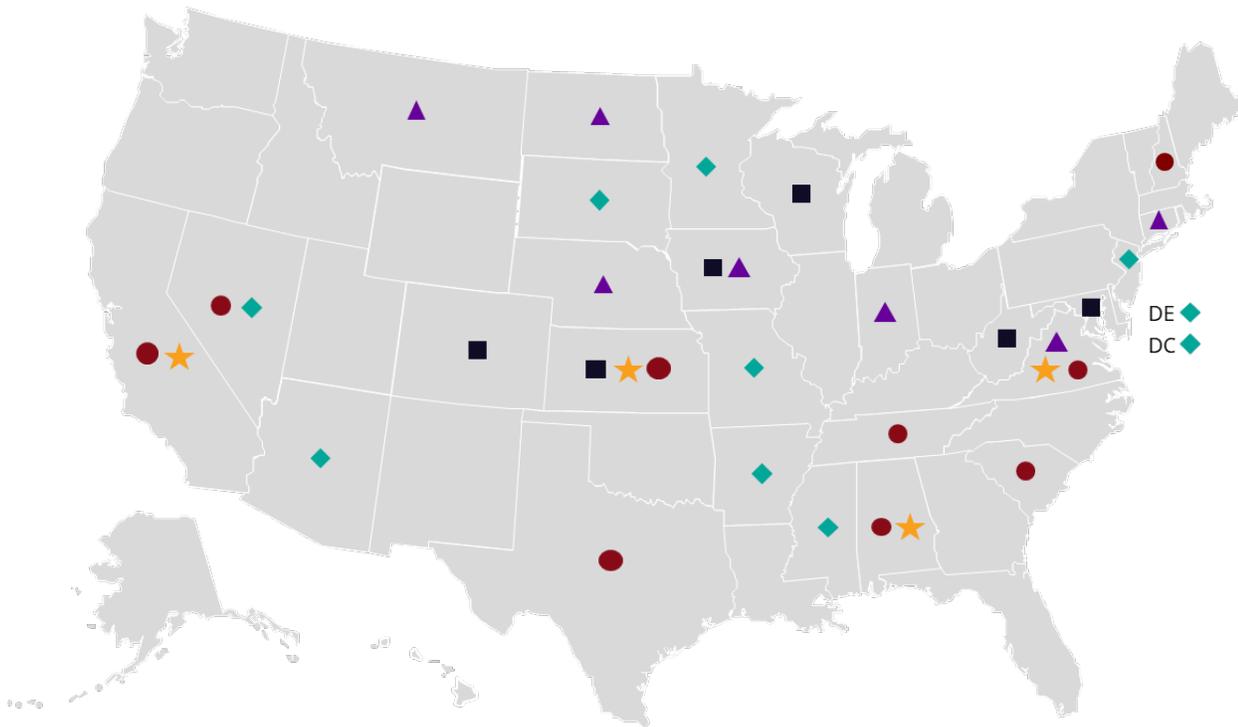
Dedicated Funding to State Arts Agencies, Fiscal Years 2011-2020



STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

SAA's Receiving Revenue from Dedicated Funding Mechanisms, Fiscal Year 2020

- ◆ 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 FY2020; 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 special public financing mechanisms used by legislatures to fund state arts agencies include:

- **Special Taxes and Fees:** While local tax initiatives are common municipal and county arts funding strategies, fewer state arts agencies receive dollars from state level taxes. As of FY2020, 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), 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, and South Dakota imposes a more general tourism tax that imposes a tax on lodging, services and attractions associated with tourism to the state.
- **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 five states. Gaming revenues are

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

significant sources of income for the SAAs in Colorado, Iowa, Kansas and West Virginia 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, gaming funds are involved in funding the arts in Massachusetts, where the state general fund receives a reimbursement from the lottery account equal to the general fund dollars appropriated to the SAA.

- **Specialty License Plates:** Some states promote the arts with special automobile license plates and use the associated fees to fund the SAA, a cultural endowment or arts organizations in the state. Among the 15 states currently involved in such programs, only 9 states report funds received in FY2020 from a license program. Specialty plate revenue is a major source of funding for only two SAAs, California and Tennessee (which receives a portion of proceeds from more than one special plate).
- **Income Tax Checkoffs:** In FY2020, 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. California recorded substantial returns via this mechanism (\$250,000), but that is not the norm. Receipts ranged from \$8,900-\$37,761 for other states. Several additional 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. A recent bond issue approved by voters in Rhode Island provided a total of \$30 million in capital funds for arts organizations from FY2016-FY2020. Other examples include Connecticut (bond issues helped capitalize the Connecticut Arts Endowment), 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 trusts to fund the arts are active in 14 states, but currently supply funds to SAAs in only 7 states. Interest proceeds are used to seed the endowments of local arts groups or to fund special SAA grant or arts education programs. 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.

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

Numerous public financing models always have been available to states, but general fund dollars have remained the primary source of funding for most SAAs, despite the competition, resource shortages and politics that can make general fund allocations 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, nine state arts agencies reported that special mechanisms supply 50% or more of their agencies' state government funding in FY2020.

SAA's Receiving at Least 50% of State Funding from Dedicated Revenue Mechanisms Fiscal Year 2020

State	Funding Mechanism	FY2020 Funds to SAA from Mechanism	Mechanism's % of Total State Funds to SAA
Kansas	Gaming revenue, license plates, tax checkoffs	\$560,000	100.0%
Missouri	Entertainers and athletes tax	\$6,570,874	100.0%
South Dakota	Portion of tourism tax	\$1,006,468	100.0%
New Jersey	Hotel/motel tax	\$16,000,000	97.5%
District of Columbia	Portion of sales tax	\$31,026,000	90.4%
Minnesota	Portion of sales tax	\$32,500,000	79.8%
Nevada	Portion of room tax, admission tax, license plates	\$1,377,323	72.8%
Tennessee	License plates	\$5,999,200	67.0%
Colorado	Gaming revenue	\$2,023,000	50.6%

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

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 \$717,422 from workshop registration fees, product sales, auctions and other earned sources in FY2018. This amount represents 0.1% of total SAA revenue in FY2020.
- **Private Support:** Foundation support to all state arts agencies totaled almost \$3.6 million, about 0.6% of all SAA revenue, in FY2020. Corporate and individual donations to state arts agencies in the same year totaled \$115,439, 0.02% 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 Education and the U.S. Department of Agriculture. These funds tend to be limited in duration, restricted to specific uses and extremely competitive.

Private Funding in Brief

- 15 state arts agencies reported the receipt of private funds (grants or contributions) in FY2020. However, these funds provided only 0.7% of total state arts agency revenue in FY2020.
- 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. Competing against grantees for fund development is another concern.

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 automatically has protected an SAA from budget cuts, nor does the presence of a policy designating funds for the arts council guarantee that those funds actually will be allocated to the SAA, especially during a fiscal crisis. Several special arts funding mechanisms have become targets for funding "raids" during tough times. The need to systematically educate key decision makers never wanes.

Every funding source has vulnerabilities. Will special funding policies or allocation levels be subject to a sunset review? Would a strategy that is advantageous in the current political

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

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 wane 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 nine state arts agencies secure sizable portions of their budgets from dedicated revenue, most initiatives deliver relatively small amounts. For instance, only 5 of 13 SAA license plate programs yielded more than \$100,000 for the state arts agency in FY2020, and the amount of interest state arts agencies received from cultural trusts ranged from \$10 to \$803,441 with a median of \$248,892. 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 may be 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 the public funding milieu. 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 current claim, or to create a coalition of partners that advocate together for a shared revenue enhancement.

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

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

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, 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 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.

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

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, 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.

STATE ARTS AGENCY DEDICATED REVENUE STRATEGIES

acknowledgments

This policy brief was first released in 2007. This 2020 update is authored by Patricia Mullaney-Loss. 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 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. Arts Endowment funds support in part NASAA's collection of quantitative data about state arts agency finances.