

STATE POLICY BRIEFS

Tools for Arts Decision Making

STATE ARTS AGENCY SUPPLEMENTAL FUNDING 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

Examples of special public financing mechanisms used by legislatures to fund state arts agencies include:

- **Special Taxes and Fees:** While local tax initiatives are fairly common municipal and county arts funding strategies, fewer state arts agencies receive dollars from state-level taxes. As of fiscal year 2013, 10 state arts agencies received revenues from dedicated taxes or fees. Examples include hotel/motel fees (New Jersey), a percentage of state sales tax (Minnesota), 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 museums, sporting events, parks and performances—are another form of public arts funding. Such funds commonly are allocated to the arts at the local level; state admissions taxes to date have not been used to fund SAAs.

Legislative Strategies in Brief

- 52 out of 56 state and jurisdictional arts agencies received state general fund dollars in FY2013. General funds comprise a median of 86.4% of all state funding received by these agencies.
- 29 state arts agencies received state funds through some other public funding mechanism in FY2013. These mechanisms comprised a median of 27.7% of those agencies' total state funding.
- The number of states using supplemental public funding mechanisms to support the arts has grown. 15 state arts agencies tapped such resources in FY2003.

National Assembly of
State Arts Agencies

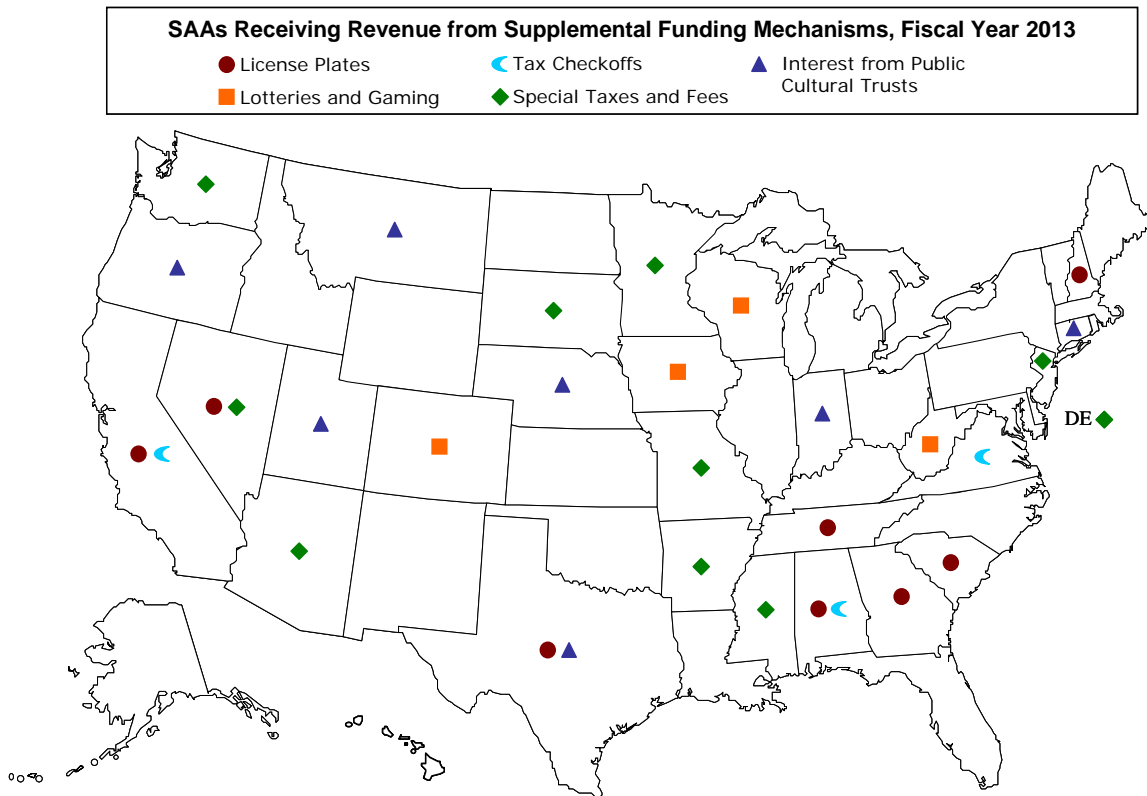
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STATE ARTS AGENCY SUPPLEMENTAL FUNDING STRATEGIES



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 FY2013; additional mechanisms are present in some states that do not currently generate funds for the state arts agency. Contact NASAA for the complete revenue details for each state arts agency.

- Lottery and Gaming Taxes:** In recent years, many states have taken steps to legalize gambling as a means of boosting state revenue, and this money has helped fund SAAs in four states. Gaming revenues are significant sources of income for the SAAs in Colorado, Iowa and West Virginia, but provide only modest revenue in Wisconsin. 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 amount of general fund dollars appropriated to the SAA.
- Specialty License Plates:** Some states promote the arts with special license plates and use the associated fees to fund the SAA, a cultural endowment or arts organizations in the state. Among the 17 states currently involved in such programs, specialty plate revenue is a primary source of agency funding for only three SAAs: California, Tennessee (which receives a portion of proceeds from more than one special plate) and Texas.
- Income Tax Checkoffs:** In fiscal year 2013, three SAAs (Alabama, California and Virginia) received funds from income tax checkoffs, which permit state residents to earmark dollars for the SAA from their state income tax return. The funds the California Arts Council received in 2013 are from two previous years; the amounts raised in each single year did not meet the threshold for disbursement, and this tax checkoff has been discontinued. However, a new checkoff specifically for arts education programs has been approved for 2013 tax forms.

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Several other 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. Examples include Massachusetts (state capital bonds support the Cultural Facilities Fund), Connecticut (bond issues helped capitalize the Connecticut Arts Endowment) and Mississippi (general obligation bonds supported the Building Fund for the Arts). These mechanisms typically are enacted for a limited duration to achieve specific policy goals.

Cultural Trusts: A Blended Approach

Statewide trusts to fund the arts are active in 15 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).

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 consideration 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, however, making special financing mechanisms more feasible in some states than others. Furthermore, a recessionary economy—combined with long-term structural pressures on overall state budgets—has increased pressure on state general funds. As a result, 10 state arts agencies now report that special mechanisms supply 50% or more of their agencies' state government funding.

continued

**SAA's Receiving at Least 50% of State Funding from Supplemental Funding Mechanisms
Fiscal Year 2013**

State	Funding Mechanism	FY2013 Funds to SAA from Mechanism	Mechanism's % of Total State Funds to SAA
Arizona	Business filing fees	\$1,380,000	100.0
California	License plates, income tax checkoff	\$3,223,000	78.2
Colorado	Gaming revenue	\$883,954	68.9
Minnesota	Portion of state sales tax	\$23,314,000	75.6
Missouri	Entertainers and athletes tax	\$4,028,692	78.2
Nevada	Room tax	\$644,332	56.4
New Jersey	Hotel/Motel tax	\$16,000,000	97.6
South Dakota	Portion of tourism tax	\$791,006	100.0
Tennessee	License plates	\$6,404,500	72.7
West Virginia	Gaming revenue	\$1,021,250	53.5

nonstate sources of funds

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

- **Private Support:** Foundation support to all state arts agencies totaled \$2.1 million, about 0.6% of all SAA revenue, in FY2013. Corporate and individual donations to state arts agencies in the same year totaled \$331,515, about 0.1% of all SAA revenue.
- **Earned Income:** State arts agencies reported a total of \$1,050,685 from workshop registration fees, product sales, auctions and other earned sources in FY2013. This amount represents 0.3% of total SAA revenue in FY2013.
- **Non-NEA Federal Funds:** SAAs in compliance with their Partnership Agreements receive funding from the National Endowment for the Arts (NEA), but a few state arts agencies have secured significant funding from other federal agencies. Sources from recent years include the U.S. Department of Education, U.S. Forest Service, U.S. Department of Agriculture and U.S. Department of State. These funds tend to be limited in duration, restricted to specific uses and extremely competitive.

Private Funding in Brief

- Eighteen state arts agencies reported the receipt of private funds (grants or contributions) in FY2013. However, these private funds comprised only 0.7% of total state arts agency revenue in FY2013.
- Private funds have not expanded over time; private funding comprised 0.9% of total SAA revenue in FY2003.

STATE ARTS AGENCY SUPPLEMENTAL FUNDING STRATEGIES

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 review when a new governor takes office? Would a strategy that is advantageous in the current political climate become a liability if the partisan balance in your legislature changed? Does the supply of your funds depend upon the demand for some other state service, or upon the presence of another policy? 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.
- **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 fund-raising activities, and consider targeting new donors that previously have not supported the arts, such as corporations, foundations and public agencies.
- **Be sure the SAA has a hand in developing legislation.** SAAs can provide accurate information about statewide needs, preexisting cultural services and other factors influencing the long-term effects of a new initiative. SAAs also can ensure that funds are distributed accountably.

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

STATE ARTS AGENCY SUPPLEMENTAL FUNDING STRATEGIES

- **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.
- **Carefully assess an initiative's potential returns.** Although nine state arts agencies secure sizable portions of their budgets from supplemental funding, most initiatives deliver relatively small amounts. For instance, only 4 of 17 SAA license plate programs yielded more than \$100,000 for the state arts agency in FY2013, and the median amount of interest state arts agencies received from cultural trusts was \$150,700. Modest funds certainly can be put to meaningful use, but weigh the time and resources spent promoting and managing a special funding initiative relative to its likely returns.

success factors

States that successfully have enacted supplemental funding strategies offer the following advice:

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. Try to anticipate favorable conditions, but don't move ahead until key policymakers have the clout, influence and willingness to help you craft a winning strategy.

Focus on a policy goal or principle popular with legislators.

Some state legislators are eager to see the public sector catalyze private-sector investment. Others may champion a particular issue—such as improving education, creating jobs or stimulating tourism. The arts agency and its initiatives can be positioned as assets to help legislators achieve various goals.

Emphasize the unique value of each funding stream.

Clarify 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.

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.

STATE ARTS AGENCY SUPPLEMENTAL FUNDING STRATEGIES**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 (urban and rural, small organizations and large, and so forth) to build consensus and 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.

Prepare for a long-term effort.

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. Educate all stakeholders and cultivate bipartisan champions that can support the cause even during times of political turmoil.

Learn from the experience of other agencies and states.

Examine models from your own state as well as other states. 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.

acknowledgements

This policy brief was first released in 2007. This 2013 update is authored by Henry Clapp. 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. Further information on supplemental funding is available on the [NASAA website](#).

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 the [advocacy tools](#) available on the NASAA website, including the series [The NASAA Advocate: Strategies for Building Arts Support](#).

the national assembly of state arts agencies

The National Assembly of State Arts Agencies (NASAA) is the membership organization that unites, represents and 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 www.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 (NEA). NEA funds support in part NASAA's collection of quantitative data about state arts agency finances.