Sales Taxes for the Arts

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Funding for the Arts Through Local Sales Tax

In this pamphlet five case studies of cities and counties across the country demonstrate the dynamics of the arts and sales taxes: how sales taxes for support of the arts have been established in different communities; requirements of setting-up an arts-designated sales tax; how to sell the tax idea to an electorate; and the impact of sales taxes on the arts community. Included are guidelines for this innovative funding source and first steps for those considering establishing a sales tax for the arts in their community.

As traditional arts funding sources have come under pressure, state and local governments are developing new mechanisms to maintain or increase public arts support. One option is increasing the local sales tax and applying the additional revenue to the arts. The most frequently used mechanism for this is the establishment of *special tax districts* which impose a tax at a specified level, usually for a fixed period of time, on particular goods and services within a defined area. Alternatively, some states provide localities with the option to collect and distribute tax revenue. In some areas, these *local option taxes* have been earmarked for the arts.

Special Tax Districts

Generally, special tax districts are created to generate revenues from increased property or sales taxes. Benefits are usually limited to the district which generates the revenues and fund a variety of public improvement projects, such as libraries, schools and parks. Currently, seven states have adopted legislation authorizing the use of special tax districts. St. Louis established the first such in 1969. Originally, 5 cents per $100 of valuation of property tax supported the art museum, the zoo, and the museum of science. With the growth of the St. Louis tax base and increases up to 22 cents per $100 valuation, proceeds of the tax have increased from $4 million in 1972 to $35 million in 1993. New tax districts, which have proven more acceptable to voters than property taxes, are based on incremental sales taxes.

Special tax districts must be authorized at the state level and generally require voter approval. Tax districts are usually administered by an independent governing body, with authorizing legislation frequently requiring periodic renewal. Special tax districts can be extremely effective fund raisers. For instance, in Denver, Colorado, about $13 million is raised annually through its Scientific and Cultural Facilities District.

Local Option Taxes

Local option taxes shift the funding mechanism from the state to the local level, where various taxes can be proposed, approved, collected and disbursed. These taxes have emerged over the last ten years in a number of municipalities in at least 25 states. Hotel-Motel taxes are the most popular form of local option taxes, used to fund programs targeted to tourists. Other forms of sales tax exist including entertainment and admission taxes, cable franchise fees, video rental taxes, and taxes on computer software. In some states, communities earmark already existing sales taxes for the arts — these are not new taxes, rather they are current taxes which, by county ordinance, are dedicated to the arts. An example of this is seen in Broward County, Florida, where the County collects $2.3 million annually for the arts through earmarked sales taxes.

Special Tax District Case Study: Scientific and Cultural Facilities District Denver, Colorado

In 1982, the Colorado State Assembly fell into a recession and ended its $8.5 million annual support to Denver's Museum of Natural History, the Denver Art Museum, the Denver Zoo and the Botanic Gardens, forcing these major institutions to begin charging admission. Though public funding was generated primarily by the City of Denver, surveys revealed that most visitors to these institutions were residents from the suburbs and the state.

Arts advocates united and developed a plan to create the "Scientific and Cultural Facilities District" (SCFD). In its original form, the bill proposed that 80 percent of the proceeds of an incremental sales tax would go to the four regional institutions and 20 percent would go to six metro area counties. Vigorous opposition to the bill emerged from small and mid-sized arts groups, whose exclusion from tax proceeds led to intense argument and ultimately the death of the bill in a House committee. Over the next year, with the help of a political consultant, the cultural organizations agreed on an approach and re-drafted the legislation which passed both chambers of the state legislature and a voter referendum in 1988 (by a three-to-one margin). The SCFD legislation created a metropolitan Denver tax district covering all of four counties and parts of two more. A sales tax of one-tenth of 1 percent was levied for a fixed period ending in 1996.

The SCFD immediately created a tremendous funding source for the arts in Denver. Annual proceeds started at $14.9 million in 1989 and grew to $22 million by 1994.

Beneficiaries of the district tax are divided into three tiers:

1. Tier I — The Denver Art Museum, the Natural History Museum, the Denver Zoo, and the Botanic Gardens. These four institutions receive 65 percent of the tax revenues.
2. Tier II — Arts and science organizations that have operating incomes of $700,000 or more (there were 11 in 1994). Institutions in Tier II receive 25 percent of the tax revenues.
3. Tier III — Smaller arts and science institutions in the district's six counties. In 1994, there were approximately 300 applications for funding in this Tier, with 75 percent receiving support.

Of the total funds, 90 percent in each tier is fixed; 10 percent is discretionary. Criteria for distributing the discretionary funds are based on regional impact, accessibility, quality, need, collaboration and innovation. Administrative expenses for the SCFD are limited to three-quarters of 1 percent of total revenues collected. The SCFD has a nine-member board of directors that consists of one representative from each of the six metropolitan counties and three appointed by the governor. The board reviews applications, distributes funds according to the formulas, and allocates the discretionary funds. Each board member serves a three-year term, with a statutory limitation of not more than two three-year terms. SCFD Board meetings are open to the public.

The impact of the sales tax on Denver's art community has been significant. From 1989 to 1992, the number of performances and cultural opportunities increased by 45 percent, with the total number of admissions increasing by 45 percent as well. The most significant sign of the SCFD's success has been its reauthorization: in 1994 the voters of Denver extended the tax until 2006 by a 57 percent margin.

Special Tax District Case Study: City of St. Paul, Minnesota

In 1991, the Minnesota State Legislature established a commission to study the viability of making St. Paul into a "cultural capital." One of the commission's recommendations was an incremental sales tax to fund improvements to the civic center and other cultural assets. Funding of neighborhood improvements was added to make the program more popular.

With the backing of a coalition of downtown arts organizations and institutions, the City of St. Paul passed legislation in 1993, assessing an additional one-half cent on the state sales tax of 6.5 percent, with funds being disbursed as follows:

- 40 percent to pay off the Civic Center Expansion Bond
- 50 percent to neighborhood projects
- 10 percent for the improvement of cultural facilities.

The final 10 percent for improvement of cultural facilities is the Cultural STAR (Sales Tax Revitalization) program. Cultural STAR funds are awarded annually though a competitive application process. Approximately 75 percent of these funds are grants, with the remaining 25 percent structured as low-interest loans. All funds must be matched by other sources and must be used for physical improvements to new or existing facilities. At least 75 percent of funds must be invested in projects in St. Paul's Cultural District, a defined geographic area downtown, for the first five years of the program. The balance of program funds may be spent anywhere in the city. The program is designed to run for 30 years.

A nonprofit organization has been established to recommend Cultural STAR funding and to investigate and implement marketing strategies. Grants are reviewed by the St. Paul Cultural District, Inc. Board (Cultural STAR Board). The Cultural STAR Board has nine members, five of whom are appointed by the Mayor and approved by the St. Paul City Council.

During its first cycle of grants, the Cultural STAR program received 26 applications for loans and grants totaling $1.5 million. The Cultural STAR Board recommended ten grants totaling $436,000 and three loans totaling $68,000. Of these projects, 75 percent were for cultural facility upgrades, with the balance directed to the lighting of public places and parking facility improvements. Preference is given to projects with a strong economic impact and those that build coalitions among downtown groups, such as a shared box office or joint marketing programs.

Special Tax District Case Study: Allegheny Regional Asset District Allegheny County, Pennsylvania

Until recently, the City of Pittsburgh found itself providing a disproportionate amount of funding for the region's arts and cultural activities. Despite the fact that city residents no longer constituted the majority of those in attendance, the city was providing a vast majority of the public funding for area cultural organizations. In 1991, the Pittsburgh mayor asked the Allegheny Conference on Community Development to address the issue of funding for area recreational facilities, cultural institutions and libraries. In response, the Conference proposed a legislative effort to stabilize funding for the regional assets, correct funding inequities, reduce reliance on property taxes, and establish a precedent for regional cooperation.

Following a two-year lobbying effort by local government and business leaders, legislation was adopted in 1993 that permitted Allegheny County to create the Allegheny Regional Asset District — an area of 734 square miles, including 130 municipalities and with Pittsburgh at its center. Its sole source of funding is a 1 percent sales tax. It is estimated that 25 percent of the collected tax comes from individuals outside Allegheny County who come to work, shop and use the regional assets funded by the tax. The tax is easy to collect and administer because it is an add-on to the existing state sales tax.

In 1995, the 1 percent add-on generated $106 million in additional sales tax. Half of the proceeds go to the District for asset preservation and half goes towards local tax reform. During 1995, the program received 68 applications for funding and approved allocations totaling $53 million to 48 groups. The allocations were:

- 32 percent to libraries
- 30 percent to parks
- 19 percent to sports facilities
- 15 percent to special facilities (*e.g.*, zoos and museums)
- 3 percent to cultural and arts organizations.

Administrative expenses for the District are limited to 1 percent of total revenues collected. The District has a seven-member board of directors consisting of two persons appointed by Pittsburgh's mayor, four by the Allegheny County Commissioners, and one chosen by the six appointed members. An eighth non-voting member may be appointed by the Pennsylvania governor. The goal is for leadership to be citizen-based and non-political. Board members cannot be an elected or appointed government official, a party official, a public employee, or be a direct relative of someone in these categories. The board and staff are responsible for administering the asset preservation half of the funds.

The tax reform portion of the funds is the responsibility of the jurisdictions that receive funding.

Local arts groups pursued inclusion in the program in 1994. An ad hoc committee was formed to develop a unified position for the arts community and present a case to the Conference on Community Development. The group proposed a funding approach based on a formula of the size of operating budgets for qualifying groups and a fixed percentage of the total tax proceeds. The arts were ultimately accepted in the program as regional assets, but the District Board opted to keep funding amounts and qualifying groups at its discretion. In 1995, $1.5 million was allocated for arts organizations. Recipients included the ballet, symphony, choral group, civic light opera, children's theater, and other major organizations.

Special Tax District Case Study: Montgomery County Regional Arts and Cultural District Montgomery County, Ohio

In 1979, the State of Ohio passed a law authorizing counties, cities and townships to create cultural arts districts that could be supported by assessments from political subdivisions and their own tax levies.

The Montgomery County Regional Arts and Cultural District (formerly named Dayton-Miami Valley Regional Arts and Cultural District) was created in 1980. In its early years, it met primarily to discuss the possibility of placing a tax on the ballot for new arts funding. In 1987, the Montgomery County Commission appointed a citizen's committee to review the County's financial condition. As a result of this investigation, the county passed a one-half percent sales tax increase, with fixed allocations to several key community initiatives: economic development, affordable housing, and cultural development. For the first ten years of the tax, one million dollars was dedicated annually to arts and culture, with these funds being disbursed through the Montgomery County Regional Arts and Cultural District.

For the first three years of the program, two-thirds of the arts allocation went to the development of the Metropolitan Arts Center, the renovation and adaptation of a former Dayton department store into an arts center. In 1992, the District used a portion of the tax to fund the "Cultural Action Plan for the Greater Montgomery County Area," which set ten goals for the arts and established funding parameters for the sales tax. Critical to these plans was the amalgamation of the United Arts Fund with the local Arts Council to create "Culture Works," an arts service organization to coordinate arts funding, advocacy, and technical assistance for local arts groups.

Currently, the arts portion of the sales tax is disbursed widely — 40 to 45 percent of the funds go to major local arts organizations. The balance goes to special projects, facility studies, and funds for individual artists. There are also special "impact grants," a competitive program for special projects deemed to have a major impact on the community, such as the upcoming National Folk Festival.

Local arts groups, the Arts Council, and United Arts Fund all helped the District establish the sales tax program. Their biggest challenge was building a consensus on the sharing of funds among major local arts organizations and other initiatives for the development of the arts in Montgomery County. The District is now attempting to measure the economic impact of the tax allocation on the community. Their preliminary assessment is that the tax generates $6 of economic activity for every $1 of tax raised.

The next challenge is to plan for 1999, when the arts allocation is scheduled to end. Options include an extension of the program and the identification of alternative funding sources to replace those tax proceeds.

Local Option Tax Case Study: Broward County/ Ft. Lauderdale, Florida

In 1985, with the support of the Broward County Commission, the Broward Cultural Affairs Council (BCAC) proposed earmarking existing sales taxes on "admissions" in order to fund arts organizations. The tax was approved by County Ordinance and funding began in 1986. The arts funding is equal to the one-quarter cent retained by the county on a 6-cent state sales tax on admissions. The first year proceeds were $250,000.

In 1988, the BCAC completed a cultural master plan for the county which identified a number of additional programs necessary to support cultural development. With program guidelines in place and only funding required, the BCAC proposed an expansion of the sales tax allocation to include a "music store" category, which consists of records, tapes, videos, electronic equipment, motion picture production equipment, tape distribution services and other related purchases. This addition came into effect in 1991, adding $300,000 to the Council's budget that year.

A third expansion of the sales tax allocation was proposed in 1993 and funded in 1994, this time adding the "Rental of Tangible Personal Property" category, which includes videotape rentals. Again, the Council sold the expanded tax allocation on the basis of specific programs that were well defined and ready for implementation. This expansion earned $460,000 for the Council in its first year. The "Admissions", "Music Stores" and "Rental of Tangible Property" categories of the state sales tax are all increasing annually in tandem with the growth of the Broward County economy, and are tied to activities which can logically support the arts. Total tax proceeds for 1996 are projected to be $2.3 million, which represents approximately 50 percent of the BCAC budget.

Sales tax for the arts is a success in Broward County because it is a growing and secure funding source. Since it is supported by county ordinances, it cannot be adjusted without an extensive public process. Additionally, tax proceeds are pooled so that the Council is able to reallocate funds and change programs as the need arises.

The key to success of this tax was the BCAC's and the community's level of planning and preparation as they developed programs and guidelines. Success was also achieved because, before attempting to authorize a new tax program, the BCAC carefully researched and identified resources that respond to the needs of the county.

Conclusions

Sales taxes for the arts have a number of advantages: they usually target those who benefit from the arts, they bring in money from outside the taxing jurisdiction and they are less objectionable than income or property taxes. They require a steady or growing tax base to provide a stable, long-term funding source that generates considerable revenue. They spread the cost of cultural assets among regional users and are politically insulated. However, establishment of these taxes can require expensive campaigns that may create conflict within the arts community regarding the distribution of funds.

The National Conference of State Legislatures, a national service organization for state legislators and staffs, offers the following guidelines to consider when reviewing a new dedicated revenue source:

1. Is the revenue source stable? If not, what can be done to make it more so?

2. Will it grow with the economy? How can you take advantage of the growth in the community?
3. Will it raise so much money that other programs will want a piece of the pie? Make sure that programs are equitable. Minimize the amount of political in-fighting that you will encounter, before it becomes a problem.
4. Will the arts be perceived as less important or a non-essential government service if the appropriations are replaced with a dedicated source? Make sure any program does not detract from the perceived value of the arts in the community.

Getting Started

For those considering a sales tax to support the arts, here are some preliminary steps:

- Contact Americans for the Arts at 202.371.2830 for sample legislation.
- Plan ahead. Determine funding needs in your area over the foreseeable future.
- Evaluate current funding sources for the arts in the community and their relative stability. Identify risks in current funding sources — this will affect future requirements.
- Consider the political climate in terms of likely support for new funding initiatives. Identify likely resistance and plan for it.
- Consider all forms of alternative funding. Don't overlook any possibility.
- Seek out other local initiatives to which alternative arts funding can be attached. It is easier to leverage existing initiatives than to start over.