

CHAPTER THREE

An earlier chapter outlined the legislative cutbacks experienced by state arts agencies during the early years of this decade as states battled the worst fiscal downturn to afflict them in a half century. Compounding the fiscal problems of these arts agencies was the fact that individual, corporate and foundation donations were dipping as well. In this context, state and local government arts agencies were forced to explore a range of different alternate funding mechanisms to not only stay afloat but also ensure that the artists and arts organizations within their jurisdictions were able to survive the pernicious effects of a slumping economy. The full impact of these government and non-government financial cutbacks, cutbacks of unprecedented severity, first surfaced during fiscal year 2002, after the economy lurched into a recession and both state and corporate revenues started plunging at a torrid pace.

At the government level, in the years following fiscal year 2002, some of the measures that were proposed and then sometimes followed through on included the governors of Arizona and Missouri eliminating funding for their arts commissions; the governor of New Jersey trying to trim \$32 million from the state's \$5 billion shortfall by abolishing the New Jersey Council on the Arts and the Historical Commission, along with a trust fund for beleaguered arts groups; then-Governor Davis of California, facing a deficit that ran into the tens of billions of dollars, scaling down funding for the arts to \$11.5 million, half of the previous year's allocation and down from a high of \$31 million three years before; the governor of New York proposing a 15 percent reduction in the nation's largest arts council budget from \$44 million to \$37.4 million; and, at the local level, the mayor of New York slashing 6 percent from the city's fiscal year 2002

arts budget and then proposing an additional 11.5 percent cut for fiscal year 2003, leaving \$102 million as the city's arts budget, comparable to the level appropriated in fiscal year 1999.¹

In fact, in January 2002, there were reports that a number of major cultural institutes in New York City stood to lose significant amounts in capital commitments from the city including the Metropolitan Museum of Art (the Met), which had been promised \$26.2 million to nearly double its exhibition space, including new areas for education and research; New York Botanical Garden, which was expecting \$31.3 million for various projects, including roof repairs and repaving; Museum of Modern Art, which was awaiting \$30 million to help increase its space and build temporary quarters in Long Island City, Queens; Queens Museum of Art, anticipating \$23.7 million to double its space; Solomon R. Guggenheim Museum, promised

\$24 million for a new downtown site; and the Aquarium in Coney Island, which was expecting \$31.4 million for refurbishment of its main hall and other repairs.²

The situation with the private sector was equally dismal as *The Chronicle of Philanthropy* reported that total gifts by the nation's top 60 donors fell from \$12.7 billion in 2001 to \$4.6 billion in 2002, a precipitous decline of 63 percent.³ However, by 2004, America's 60 largest donors had increased their charitable contributions to more than \$10 billion, a big increase from 2003, when the top 60 donors contributed \$5.9 billion.⁴ Given that a sizable portion of these donations were directed toward various arts institutions, fundraisers in the field carefully follow the ebb and flow of the economy to ascertain potential philanthropic levels. As expected, a poorly performing economy impacts negatively on corporate profit margins, a trend that then reduces the ability of corporations to make sizable charitable contributions to the arts. Experts also note that in a turbulent economy, "even the extremely wealthy feel less flush, a phenomenon called 'psychic poverty.'"⁵

The Foundation Center, a non-profit organization that collects, organizes, and communicates information on philanthropic trends in the United States, issued a report in 2005 entitled *Vital Signs: Snapshots of Arts Funding*, describing foundation support to arts and cultural organizations in 2003.⁶ According to this report, in 2003, the most recent year available, the 1,010 largest U.S. foundations donated a total of \$1.79 billion to the arts. While this contribution level involved 17,881 specific grants, it amounted to a decline of 8 percent from the contribution level provided in 2002. On an encouraging note, the percentage decline in the contribution level to the arts was



slightly lower than the contribution level from foundations to all other sectors (education, health, human services and science and technology). State arts agencies and their grantees often are the recipients of grant dollars from these philanthropic foundations.

On the West Coast, arts giving at 16 San Francisco-area foundations followed the dot-com flameout, plummeting from \$55 million in 2001 to \$44 million in 2002. In September 2002, a number of prominent opera companies (Metropolitan Opera House in New York, Los Angeles Opera and the Lyric Opera of Chicago) indicated that one of their major philanthropists, whose high-tech funds had suffered severe losses, had failed to fulfill his financial pledges. This caused the Met to create a bad debt reserve to cover a \$4 million pledge and the Los Angeles Opera to place its young artists program on hold.⁷ During the dismal early years of the downturn, further complicating the non-government donations picture was the scarcity of gifts in excess of \$1 billion. Specifically, in 2001 there were three such mega-gifts, but in 2002 only one—Walter Annenberg's bequest of Impressionist and Post-Impressionist art to New York's Metropolitan Museum of Art.

While the improved philanthropic levels reached in 2004 remained a positive development, researchers in the field had previously detected "a growing tendency among donors to make long-term pledges rather than outright

cash gifts, delaying payments on previous pledges and increasing reluctance to make new giving commitments of any sort."⁸ In fact, the 2004 level still trailed the levels reached in 2001 (\$12.7 billion) and preceding years when the contributions of the nation's top 60 donors were greater. The fear among researchers in the field was that many organizations that depend on fundraising for their operations still are not securing as much as they did in the late 1990s and 2000, when many large groups regularly achieved double-digit percentage increases.

Nevertheless, some of the major donations to the arts in 2004 included the following: Caroline Wiess Law, an oil heiress and art collector who died in December 2003 and left a total of \$450 million to three charities in her hometown of Houston, Texas. The Museum of Fine Arts in Houston, a museum founded by her parents, of which she was a life trustee, received the largest share of the gift, an estimated \$400 million, for its endowment. In addition, Ms. Law left the Museum 54 pieces of art, including paintings by Picasso and de Kooning, valued at approximately \$30 million. Then, New York City Mayor Michael Bloomberg donated \$138 million to more than 600 charities in 2004, including the financially strapped Dance Theatre of Harlem in New York.⁹ More recently, in January 2006, the Metropolitan Opera House in New York received its largest individual gift in its history, a \$25 mil-

lion donation from Mercedes and Sid R. Bass.¹⁰ The notable development regarding this announcement was the fact that the gift is not the usual pledge but money that is available immediately and in an unrestricted manner. Met officials indicated that the donation would be applied toward plugging any deficit this season (expected to be several million dollars), along with paying for an increased number of new productions.

The situation in 2005 had not improved dramatically for the arts in a number of states and localities. For instance, in Connecticut, arts leaders were alarmed in February 2005 when the governor proposed a 16 percent reduction in the \$23.7 million budget of the Connecticut Commission on Culture and Tourism.¹¹ Among the cuts proposed were \$2.25 million in cultural resources grants, which help fund arts groups' operations, education and programs and eliminating the \$1 million contribution to the Commission's arts endowment fund, which has grown over the years to \$16 million in bonding money.

Another state, South Dakota, faces similar challenges in funding its arts outreach programs.¹² Specifically, across South Dakota, 288 artists, schools and cultural organizations began fiscal year 2006 with almost \$1 million in grants from the South Dakota Arts Council. However, the funds are about \$600,000 less than those arts groups applied for and about \$21,000

less than what the Arts Council distributed in fiscal year 2005. If further cuts occur, arts officials indicate, everything from children’s performers to traveling musicians and theater productions to JazzFest could be trimmed further. The Arts Council intends to deal with its shortfall in the current fiscal year by not funding some touring arts groups that did not seek bookings for 2006 because of their own cutbacks; not funding “artists collaboration grants;” and not holding back a small reserve for late applicants.

Another development concerning a government, a local government in this instance, cutting back on contributions to the arts involves Peterborough, New Hampshire.¹³ In existence since 1907, the MacDowell Colony which, offers a refuge for artists in a variety of spheres to isolate themselves from their usual surroundings and focus on their work, has been ordered to pay property taxes. The MacDowell Colony, where Aaron Copland composed parts of Appalachian Spring, Leonard Bernstein completed his Mass and Thornton Wilder wrote Our Town, also has hosted such well known writers as James Baldwin, Willa Cather, Barbara Tuchman and Alice Walker over the decades. In mid-September 2005, Peterborough town officials filed a lawsuit to require the MacDowell Colony to pay property taxes.

In reacting to these government and non-government cutbacks, arts officials have been forced to devise a range of alternate funding mechanisms to continue and sustain the arts and cultural programs in their states. Some of these measures have been in existence for a number of years, while others have been enacted more recently in response to the deteriorating fiscal position of so many states and local governments. The following highlights some of these alternate funding mechanisms developed to fund arts programs in the absence of other, more traditional funding sources:

Earmarked Taxes: Perhaps one of the more popular strategies adopted by a number of jurisdictions across the

country involves earmarking a certain proportion of revenue flowing into the coffers of a government entity specifically for the arts.¹⁴ According to Michael Rushton, a professor at Georgia State University in Atlanta who performs extensive research on this topic, the earmarking of taxes toward funding the arts can take one of two forms: first, assigning receipts from a single tax base to a dedicated end use, or second, allocating a percentage of a broader pool of revenue to a specified purpose in the arts. The second category is the approach more favored by the different government entities. An example where a government entity earmarks a certain portion of revenue for a specific purpose is the federal government’s allocation of revenue from the gasoline taxes specifically to

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the Highway Trust Fund and the state of Georgia’s allocation of revenue from the state lottery specifically to education.

While, theoretically, any one of the many sources of government revenue may be earmarked and then allocated toward the arts, three specific tax categories loom large in a review of this source of funding for the arts:

- a) Retail Sales Taxes – According to Rushton, the cities of Denver, Colorado; Salt Lake City, Utah; St. Paul, Minnesota; and Pittsburgh, Pennsylvania, all have deployed the strategy of using earmarked retail sales taxes for the arts. A levy of one-tenth of 1 percent sales tax is assessed over a seven-county region of metropolitan Denver

to provide funding for Denver’s Scientific and Cultural Facilities District (SCFD). While the accrued funds are distributed by the SCFD, four large cultural institutions receive guaranteed funding while middle-sized cultural organizations apply for funding on a competitive basis. In addition, the SCFD returns a portion of the funds raised to the local county where the funds originated so that local county officials can make recommendations on funding the smaller community-based cultural organizations. While landmark legislation was enacted to create the SCFD in 1988, voters reaffirmed their support of the SCFD tax in 1994 and, most recently, again in November 2004 with a 65 percent approval rate.¹⁵ (SCFD will now sunset or expire on June 30, 2018.) It is estimated that by October 2004, the SCFD had distributed more than \$400 million to arts and science groups in the Denver area since 1988. For instance, the Denver Center for Performing Arts secures about \$3 million annually from the SCFD.¹⁶

In Salt Lake City, funds earmarked for the arts amount to one-tenth of 1 percent of sales taxes and, even though all arts organizations compete for these funds, the larger organizations are almost guaranteed of securing funds. Then, St. Paul levies an earmarked tax of one-half of 1 percent of sales taxes for the arts; one-tenth of the revenue raised is mandated for cultural projects and a majority of this amount must be invested in a designated cultural district. Finally, Pittsburgh assesses a 1 percent sales tax, and 5 percent of the revenues raised from this assessment is designated toward arts and culture in the city.

- b) Occupancy Taxes on Hotels and Motels – A number of cities and metropolitan areas garner revenue for the arts from hotel and



Visitors view a video installation at an art gallery.

motel taxes. The cases of San Francisco, Houston, St. Louis and Columbus, Ohio, are cited as leading examples here. Interestingly, each of these localities allocate the funds raised from their hotel and motel taxes to finance very different programs in the arts. For instance, San Francisco uses the funds raised from this source to finance culturally diverse institutions that work on cutting edge artwork. Houston allocates its funds to shore up the city's convention and tourism sectors; specifically, the Cultural Arts Council of Houston receives a percentage of this hotel and motel tax for art. Columbus and St. Louis use funds generated from this source to broaden the scope of cultural opportunities in their communities to include those that otherwise would have been excluded from the arts. Also, the public art program in San Diego, a unit within the San Diego Commission for Arts and Culture, gathers funds from this source. Administrative costs for the Commission are covered by a portion of the city's Transient

Occupancy or Hotel/Motel Room Tax, which helps to fund the operating and personnel expenses of nearly 90 arts and cultural organizations.

More recently (2005) in Kentucky, the General Assembly approved a 1 percent statewide sales tax on hotel and motel rooms earmarked specifically to promote tourism in the Bluegrass state.¹⁷ While initial estimates indicate that this tax would generate about \$6 million annually, based on proceeds from the first three months of the fiscal year, it appears that the total could be much higher. Significantly, under the Kentucky model, the funds raised will only be for reimbursing local tourism boards and non-profit attractions; local groups have to spend the money first and then apply to be reimbursed by the state up to one-fourth of half the cost of an initiative.

- c) Property Taxes – St. Louis is a city that earmarks a portion of its property taxes for the funding of five large cultural institutions. In the last few decades, beginning in the late 1960s, St.

Louis, like many other cities across America, faced a series of challenges in dealing with more and more of its population migrating away from the city into surrounding suburban counties.¹⁸ This exodus of tax-paying residents left the city of St. Louis with a decreased tax base to support the city's renowned cultural institutions. In response to this alarming development, in 1970, the General Assembly of Missouri passed House Bill 23, which established the Zoo-Museum Tax District (ZMD). Then, residents of the city and counties of St. Louis voted to tax themselves equally to support the St. Louis Zoo and the St. Louis Art Museum; later sub-districts were included for the Missouri History Museum, St. Louis Science Center, and the Missouri Botanical Gardens. Each of the five institutions currently receive proceeds from separate property tax assessments, which range from 3.1 cents to 6.1 cents per \$100 assessed valuation.

On the other hand, very recently in March 2004, voters in Cuyahoga County, Ohio (encompassing Cleveland) rejected an effort to increase property taxes as a means of raising revenue to fund the arts and spur economic development. Learning from this rejection, experts in this arena often encourage arts advocates pushing for earmarked taxes to fund the arts to "piggyback" onto measures that are considered "no-brainers," such as expanding the police and fire departments. Experts also indicate that by comparing a one-mill sales tax increase (that is one-tenth of one cent) to the cost of a McDonald's Happy Meal, for instance, supporters of the arts are likely to succeed in their quest to secure revenue earmarked for the arts.¹⁹

Interestingly, urban planners now comment on a marked re-



Molly Murphy exhibition at a Kansas City area gallery.

versal of the trend of an exodus from the metropolitan areas to the suburbs. They reference a number of cities across the country—Atlanta, Georgia; Little Rock, Arkansas; Denver, Colorado; Baltimore, Maryland, for instance—that are seeing a strong inward migration as plummeting crime rates, shorter commutes and the allure of an urban lifestyle entice citizens back into the downtown and central business districts.²⁰ In Baltimore, Maryland, officials announced the construction of a glass skyscraper soaring 59 stories and 717 feet to become the city’s tallest building.²¹ This \$300 million project is hailed as the latest example of a surge of redevelopment that has begun transforming the city’s downtown into a residential and entertainment hub, boosting demand for amenities such as hotels, restaurants and shops.

Cities such as Jackson, Mississippi, that have long sought to develop their downtowns as thriving areas of residences and commerce, recently have initiated concrete measures to begin the transition.²² During the 2006 legislative session, a plan to transform eight blocks of downtown Jackson with new apartments, parking garages, office space, retail establishments, entertainment venues and restaurants, a cultural

center and hotels, was sponsored. The strong support of the private sector, specifically Entergy Corporation which, together with the state, owns more than 60 percent of the land in the proposed district, has raised the expectations of public and private sector officials about the project’s (titled Old Capitol Green development) success.

Percent-for-Art-Legislation: A number of localities across the country have enacted “percent-for-art-legislation” that ensures a steady stream of funds that can be deployed to finance various arts-related projects and public art works.²³ By enacting such legislation, the locality requires that a certain percentage of specified publicly funded capital improvement projects are allocated toward arts-related projects. For instance, the Arts Council of New Orleans funds public art projects through a joint partnership between the public and private sectors in order to create a more stable funding basis. Phoenix, Arizona’s public art program is funded through the city’s general purpose funds, public art funds, state lottery revenue, and regional and federal grants. Then, the San Antonio Design Enhancement Program (DEP) is operated through the city’s Public Works Department’s City Architects’ Office. The DEP program is maintained by art allowances and budgets that are identified and developed by each project design team. More recently, in May 2004, in Oklahoma,

Governor Henry signed his state’s *State of Oklahoma: Art in Public Places Act* to support public art in Oklahoma. The new law requires that one and a half percent of the cost of construction or major renovation of state-owned public buildings approved after September 1, 2004, must be allocated for works of art in or near the project. While the act applies to construction or renovation projects costing \$250,000 or more, the maximum assessment for any one project is \$500,000.²⁴

Innovative Corporate Solicitations: Beyond the usual solicitation of corporate contributions to the arts, experts also contend that there are a number of non-traditional strategies to encourage the corporate community to fund public arts projects. For instance, if a city is going through a major development phase, like Little Rock in 2004 or Mobile in 2002, where developers began spending hundreds of millions of dollars to enhance the image and economic potential of the city, the arts community is advised to seek allocations toward public art works by pitching it as an integral part of this economic expansion effort.²⁵ Another strategy forwarded regarding investing in public art projects could involve the incentive packages provided to developers. Under this approach, a percentage of the fees paid by developers (environmental mitigation fees) could be set aside for public art projects, where the art would be considered a mitigation tool. Finally, developers could be allowed to fund public art projects as

part of the public space they are required to set aside on the ground floor of buildings being constructed.

Universities: During the bleak early years of this decade when funding from both public and private sources dwindled, a number of arts organizations and artists were able to secure sustenance from a most unlikely source: universities.²⁶ In the past, colleges and universities often came to the aid of artists and arts organizations by providing rehearsal facilities, technical support and audiences. More recently, these institutes of higher learning have rescued the arts by providing significant sums of money, particularly by commissioning and sponsoring new arts projects and works. In fact, this is considered “a uniquely American phenomenon since nowhere else in the world do universities maintain major arts centers on campus that operate as major arts centers for their regions.”²⁷ One of the most striking examples of this latest collaboration was the decision by Columbia University and the University of Michigan to invest \$2 million in a stage production of

Salman Rushdie’s novel “Midnight’s Children,” that was performed by the Royal Shakespeare Theater at the Apollo Theater in Harlem, in Ann Arbor, Michigan, and in England in 2002.

In fact, in the last decade or so, a number of universities, ranging from Ohio State University to the University of Iowa to the University of Michigan to the University of California to Miami-Dade Community College, have earmarked significant dollar amounts to sustain both established artists and newcomers. To fund these arts projects, the universities draw on their arts centers’ general budgets, including ticket sales and university subsidies, and also raise funds from individual patrons and foundations, specifically for commissioning new works. For instance, the University of Michigan’s University Musical Society (UMS) has brought orchestras, theater companies and dancers to Ann Arbor for more than a century; more recently, however, UMS has made an active effort to commission and sponsor new works

from emerging artists. Bard College, in Annandale-on-Hudson, New York, planned its new performing arts center (designed by the acclaimed architect Frank Gehry) with the goal, like so many other educational institutions, of enriching cultural life on campus and beyond. The University of California at Davis in 2002 had a \$7 million annual performing arts budget while the University of Iowa, one of the most active campuses in commissioning new works, has promoted more than 80 new works over a 15-year period.

Beyond the obvious positive economic and non-economic flows from these arts ventures sponsored by American institutes of higher learning, officials at the universities also indicate that “they think of their work [sponsoring established and emerging artists] as the equivalent of science research, but in the arts” and “[W]e don’t have a patronage class the way we did with Rockefeller and Carnegie and we don’t have government funding like European societies do, so educational institutions have to step into the breach.”²⁸