



Research Atlanta, Inc.

Georgia State University
Andrew Young School of Policy Studies

Sustainable Funding for the Arts: Earmarked Taxes and Options for Metropolitan Atlanta



By
Michael Rushton
Andrew Young School of Policy Studies
Georgia State University

Prepared for
Research Atlanta

Sponsored by


SUNTRUST

Major Corporate Sponsors of Research Atlanta, Inc.





Research Atlanta, Inc.

Georgia State University
Andrew Young School of Policy Studies

Sustainable Funding for the Arts: Earmarked Taxes and Options for Metropolitan Atlanta



By
Michael Rushton
Andrew Young School of Policy Studies
Georgia State University

Prepared for
Research Atlanta

Sponsored by

SUNTRUST

ACKNOWLEDGMENTS

The author wishes to thank Teresha Freckleton-Petite of the Andrew Young School of Policy Studies for her invaluable work as a research assistant on this project. He is also most grateful to respondents in Denver, St. Louis, Philadelphia and Salt Lake City for giving their time to answer questions about their local arts funding programs. He thanks readers of earlier drafts of this study for many valuable suggestions.

ABOUT THE AUTHOR

Michael Rushton is Associate Professor of Public Administration and Urban Studies, with a cross-appointment to the Department of Economics, at the Andrew Young School of Policy Studies at Georgia State University. He holds a Ph.D. in Economics from the University of British Columbia, and joined GSU in the summer of 2002 from the University of Regina, Canada, where he taught economics and public administration, and also served as Dean of the Faculty of Fine Arts. In 2000 he was Visiting Scholar in Cultural Economics at Erasmus University Rotterdam, The Netherlands, and during the spring of 2003 he was Visiting Scholar at the Cultural Policy Center at the University of Chicago. His research has dealt with such topics as the place of economics in the study of the arts, public funding of controversial art, the economic implications of the legal rights of artists, political oversight of publicly funded arts councils, and copyright and the arts. He has also published a number of studies in the area of tax policy. He is Book Review Editor of the *Journal of Cultural Economics*, and serves on the Editorial Board of the *International Journal of Cultural Policy*.

Sustainable Funding for the Arts:
Earmarked Taxes and Options for Metropolitan Atlanta

Michael Rushton

Executive Summary

On June 13, 2002 the first meeting was held of the Regional Arts Task Force, assembled by the Metro Atlanta Chamber of Commerce. Meetings of the Task Force through 2002 were open to the public, and a number of special “listening sessions” were held in various locations in the Metro area.

The mission of the Task Force is: “To make the Atlanta region a premier center for the arts, and for it to be recognized as such.” The Task Force members unanimously selected an Arts and Culture Vision Statement: “Arts and Culture will be recognized as defining elements of the quality of life in the Atlanta region.”

From its very first meeting the Task Force gave a grade of “C” to Atlanta as an arts center, and claimed that Atlanta is not achieving its full potential. Three “root causes” of the problem were selected as the highest priorities of the Task Force:

- A regional vision and strategy for the arts;
- A coordinated regional arts leadership; and
- A sustained regional funding mechanism.

Through the Task Force’s deliberations, the questions arose as to whether much could be achieved without stable funding.

This Research Atlanta study, sponsored by SunTrust, considers a type of sustained funding mechanism that has been tried in other US cities and metro areas, an earmarked revenue source for the arts. It does not address the questions of a regional vision and strategy, or a coordinated regional arts leadership, although the question of vision, and an articulation of the *public* interest in the support of the arts, are a critical part of any discussion of funding sources.

Earmarked taxes can either assign receipts from a single tax base to a dedicated end use, or, what is more common for the arts, dedicate a *proportion* of a wider pool of revenue to a dedicated end use. The earmarked

taxes familiar to most Americans are the federal government's Manufacturers' Excise Tax on Gasoline, which is devoted to the Highway Trust Fund, and, of course, the Social Security System. Georgia residents in particular are most familiar with the earmarking of lottery revenues for education.

Although in principle there are as many ways of creating an earmarked tax for the arts as there are sources of government revenue, for major metropolitan areas in the US there are three options that dominate: the retail sales tax; occupancy taxes on hotels, motels and the like (usually simply referred to as hotel/motel taxes); and, the property tax. Not surprisingly, earmarked taxes for the arts have been implemented using tax bases where the city or county has some scope for setting the tax rates.

The study examines the use of earmarked retail sales taxes for the arts in Denver, Salt Lake City, St. Paul and Pittsburgh. Denver's is perhaps the best-known; the Scientific and Cultural Facilities District (SCFD) levies a one-tenth of one percent sales tax over seven counties of Metropolitan Denver. The funds are distributed by the SCFD itself. Four large cultural institutions receive guaranteed funding, middle-sized organizations apply for funding to the SCFD on a competitive basis, and some funds are distributed back to the counties where the monies were collected such that local county officials can make recommendations on funding for small community-based arts organizations. Salt Lake City's earmarked tax is also one-tenth of one percent. All arts organizations must compete for funds, although the large institutions are always reasonably assured of receiving funds. St. Paul levies a one-half of one percent sales tax, and one-tenth of those revenues are for cultural projects, the bulk of which must be invested in a designated cultural district. Finally, Pittsburgh levies a one percent sales tax, of which five percent of the revenues are designated for arts and culture.

Hotel/motel occupancy taxes are often used for special purposes; in this study the use of hotel/motel taxes for the arts in San Francisco, Houston, St. Louis, and Columbus, Ohio are considered. These cities provide interesting contrasts in the purposes of using earmarked funds: San Francisco looks to fund culturally diverse institutions that will develop works of art at the cutting edge, Houston is more focused on arts organizations that will bolster the tourism and convention sector, and Columbus and St. Louis aim to enhance the cultural opportunities for the community, especially those who would otherwise have little access to the arts.

St. Louis also uses an earmarked property tax for the funding of five large cultural institutions. The St. Louis Zoo Museum District (ZMD) distributes funds as a fixed mill rate per institution. The goal of the program is to maintain world-class cultural and scientific institutions that will be accessible to all residents of the area.

Kansas City and Detroit provide cautionary tales, where proposals for an earmarked tax for the arts either got mired in legislative debate without actually getting to voters (Kansas City) or which was put before voters but was rejected (Detroit). Each case provides lessons for advocates of an earmarked tax for Atlanta, since each of these cities faced issues regarding the geography of the program: where would tax revenues be collected and where would they be spent.

For any proposal for an earmarked tax for the arts, voters will be considering who will bear the burden of the tax. Arts advocates will be interested in whether the source will provide stable, sustainable funding.

The retail sales tax is paid by consumers of the goods and services that comprise the tax base. While a retail sales tax that applied to all goods and services would be regressive (i.e. the poor would pay a higher proportion of their annual income towards that tax than would the rich), the usual tax exemption for necessities mitigates the regressivity. From a resident's point of view another positive aspect of the tax is that at least some proportion will be paid by visitors to the area. For arts advocates, the retail sales tax has the advantage of generally showing a pattern of stable growth with low fluctuations from year to year. Sales tax rates in the five core counties of Metro Atlanta range from 5% to 7%, the same range where we find the other US cities that have adopted earmarked retail sales taxes for the arts, and so there are unlikely to be complaints that Metro sales tax rates are already out of line with other jurisdictions.

While the hotel/motel tax is collected for the most part from visitors to the area, it is not entirely the case that visitors truly bear all the burden of the tax. An increase in the occupancy tax rate will increase the price of visiting the area, and by the law of demand we would expect that the number of visits would fall. The more demand falls, the more the hotel/motel tax is felt by residents in lost income; the burden of the tax is shared between visitors and residents. The major drawback of the hotel/motel tax is its instability;

the past two years have provided solid confirmation of the uncertainty of tourist revenues in regions that have come to depend on them. Although hotel/motel taxes are a popular choice for earmarked taxes for the arts, it is somewhat paradoxical that such a variable revenue source is applied when the very purpose of earmarking is to insulate arts organizations from high variance in funding.

The burden of the property tax is not easily classified as progressive or regressive. Local officials in Denver report that in the debates surrounding their introduction of an earmarked tax, the sales tax was chosen over the property tax since the growth potential appeared greater, and that it seemed there was less public resistance to a sales tax. On this question there will be different opinion from city to city depending on the existing structure of taxes and whether one tax in particular is already seen as being too high.

Economists have been divided on whether earmarked taxes are a good or bad idea, and the division is not one that can be expressed along the left vs. right notions we often find in economic debate in the popular media.

An earmarked tax is a restriction placed on those who make public budgeting decisions. It is not perfectly binding, since whatever body enacted the tax will always at some point have the option of repealing it, but clearly the intent is to place restrictions on how budgets will be drawn. This immediately raises the question of *why* we would want to do this. The principal argument against earmarked taxes is that they reduce flexibility in budget-making, and cities and counties will often need flexibility in dealing with unforeseen contingencies. Where economists have spoken in favor of earmarking it is because the reduction in the scope of what decision-makers can do is a *positive* aspect of the tax.

Earmarking revenues is a way for citizens to obtain a commitment on public funding that is otherwise a difficult promise for politicians to keep. That is why in many cases voters have been willing to accept tax increases only when they have a guarantee of where the money will be spent. The federal gasoline tax is a good example of a tax increase that has, in the past, been tolerated when other tax increases have not. Evidence from the UK suggests that voters would be willing to accept tax increases if they were earmarked for health care, but not if the revenues were simply going into a general fund.

Earmarking can have the additional benefits of making the government expenditure process more transparent than it would otherwise be, which is good not just for achieving a better match between how voters want their money spent and how it actually is spent, but also for generally improving the democratic ideal.

Any advocate for an earmarked tax for the arts in Metro Atlanta will need to be familiar with the strengths and weaknesses of earmarked taxes. That being said, the main experience Georgians have had with earmarking, the dedication of lottery revenues to education, has been a positive one that maintains substantial positive support.

What public interest is served by an earmarked tax for the arts? This is the most important question of all. If there is no coherent answer, then any advocates of an earmarked tax will be left explaining why they would want to support a transfer of money from taxpayers in general to those who happen to enjoy attending those cultural events that would be eligible for funding.

It will not be enough to claim that the range of organizations receiving funding will be large and attract diverse audiences, because it leaves unanswered the question of why funding through the private sector, plus what public funding already exists, would not be wholly adequate. Furthermore, when the public interest *is* identified it will not only justify the new funding mechanism but will also indicate what sort of allocation process is appropriate.

Economists who study the arts have identified a number of reasons why public support of the arts, beyond what the private sector alone could provide, is justified:

- Left to the private sector alone, the opportunities to share in the cultural life of the region will not be distributed equitably, and individuals with low income, or who have not had the benefits of a family upbringing or schooling that enable them to fully partake in our cultural life, or who live in neighborhoods with few cultural offerings, will be missing out on a crucial part of a full life.
- There are benefits from the arts in the community that accrue through the building of *social capital*: the invisible, informal ties that bind our society together. By enhancing the opportunities for different citizens to get together, especially in amateur cultural organizations where the

citizens are actually participating in the activity, not just as spectators, we build the social capital that is now seen by many as an important determinant of the quality of life in a region.

- There are in the arts what economists refer to as *positive externalities*, where I will benefit from others taking part in cultural activities even when I myself am not a part of those activities in particular. For example, I benefit from children having a vibrant arts education program in schools, and the opportunity to experience a wide range of cultural offerings in the Metro area, because it will improve my quality of life to live in a society that is culturally literate and that will give support in future to the cultural institutions I value. I will also benefit from a culturally vibrant city attracting new residents that will add to the cultural and economic life of the region.

Each of these reasons has two things in common.

First, they each identify a *public interest* in the arts, even for those who are not regular attendees of events, whether it be in terms of helping those who are for various reasons culturally deprived, or of building community, or through changing the cultural life of the area in ways that benefit everyone. As stated above, it would be very difficult to persuade the voting public to support new funding for the arts if the public benefits are not articulated.

Second, each of these reasons has in common an understanding that our cultural traditions, and the fostering of new creations and ideas, are not simply an entertaining diversion, although being entertained is certainly a part of our cultural life. Our culture is at the core of how we define and understand our selves and each other. It is how we express or experience a vision for which words alone would never be adequate. It is how we are connected to our ancestors who came before us and the generations who will come after. The arts are different from other goods.

The residents of Metro Atlanta will differ regarding what is the most important public interest in the arts. Some may believe that it is most important to stress the cultural development of youth, especially for the disadvantaged and the at-risk. Arts education programs, artists-in-schools, and after-school programs will be a funding priority. Others will see the most gain in the development of community, especially through the sustainable funding of small arts nonprofit organizations. Still others might believe that directing attention to the pursuit of artistic excellence is the best

way to maintain our traditions and inspire future generations. No doubt for many people all of these goals will be important, but there will be differences in where new public funding could do the most good.

A coherent proposal for an earmarked tax will include an identification of the public interest in the arts in Atlanta, and from that the criteria for how funds would be allocated should naturally follow.

As we find in the Kansas City and Detroit cases, concerns will inevitably be raised about *which* taxpayers will contribute to the earmarked tax and *where* the funds will be spent. Metro Atlanta's transportation challenges are obvious enough to be taken as a given. Residents distant from central Atlanta will raise questions as to whether they will be paying a tax to fund arts organizations in the city from which they expect to receive few benefits. This takes us back to the previous question: what is the public interest in the arts funding?

If the argument is that funding for nonprofit arts organizations is a way to build social capital through greater citizen participation, then it will be important that the funds from the dedicated revenue source be distributed throughout the area covered by the tax, since the essence of social capital is in its being local.

If the public interest is in creating greater equality of opportunity to acquire cultural experiences, then some geographic redistribution would be called for as culturally deprived areas would ideally be the location of more allocations than the amounts collected in taxes there, or, perhaps more allocations would be made to central cultural organizations well-placed to serve the needs of the disadvantaged groups.

If the public interest is in having some "world class" institutions, then there may be a geographic redistribution from suburbs and exurbs to the City of Atlanta.

In thinking about the public interest, it would be unwise to ignore Atlanta's cultural diversity. Cultural diversity comes in many forms, not simply ethnic or racial, and works across the different tastes people have for the different genres of art. As cultural tastes become more varied, and as there is less consensus on the particular cultural value of the high arts versus popular art, the case for public funding becomes more difficult to make.

When economists first began studying the rationale for public funding of the arts, in the 1960s and 1970s, there was an implicit assumption about what was meant by “the arts”: it was a very particular artistic heritage, the high art tradition of Western Europe. But that assumption can no longer be made.

This does not mean that it will be impossible to secure agreement on a new source of sustainable funding for the arts in Metro Atlanta. Cities with cultural diversity have been able to create very successful arts funding systems. But there is a challenge that needs to be addressed.

Should the allocation process be competitive? From a public interest perspective there is much to be said for competition, even for large organizations. It forces arts organizations to document how it is that they are serving a public interest, it provides citizens with a greater sense of accountability to the public, and, often overlooked, it gives new arts organizations a chance to gain a foothold. Note that one half of American art museums have been founded since 1970; this is not a static sector, and it is worthwhile to ask whether the funding allocation process should reflect this.

What arts organizations should be eligible for funding? The St. Louis ZMD model focuses on very secure funding for a few large organizations, and it seems to have a clear idea of what will be accomplished through that: world class institutions available for free admission, and many educational programs, for its citizens. Denver, after initially proposing such a model, funds a very large number of organizations, and ensures grants to community arts organizations in the suburban counties. Once the purpose of the public funding is determined, the answer to this question should be clearer.

Who should make the allocation decision? There are three distinct methods of allocating funds, which might be used in some combination. One method is to specify the allocation of funds to specified cultural organizations at the outset, so that while a commission may exist to oversee the transfer of funds, the commission is not engaged in any decision-making over the allocation. An example would be the ZMD in St. Louis.

A second method is to grant the new funds from the earmarked tax to an existing arts council or group of councils, to supplement its existing programs, which are generally conducted on a competitive basis. An

example in this case is the Greater Columbus (Ohio) Arts Council, which receives a portion of the local occupancy tax and allocates funds on a competitive basis.

The third method is to allocate funds through some body that exists only for the purpose of allocating the earmarked revenues, for example the Scientific and Cultural Facilities District in Denver. Such a body might allocate its funds entirely on a competitive basis, or, as is the case in Denver, through a variety of means: statutory allocation to large organizations, a competitive process for medium-sized organizations, and funding for community-based arts organizations being handled by local government.

Metropolitan Atlanta has a number of arts funding bodies already in place, and so a key question would be, if an earmarked tax were adopted, and some aspect of the allocation of funds were to be competitive, should some new body be created? A new funding body would make sense if the purpose of the funding were different from what is typically the goal of programs by the county arts councils or the Metropolitan Atlanta Arts Fund. For example, the goal of the new funding might be to foster more collaborative projects across organizations, if this were seen as a deficiency under the status quo.

It is always a difficult task to estimate the revenues that could be raised from the application of an earmarked tax. First, the tax base is constantly shifting due to population changes or changes in general economic conditions. Second, changes in the tax rates themselves will cause changes in the tax base.

That being said, the estimation problems are most likely less for the sales tax base than for other tax bases, and on those grounds we can do some rough calculations. The seven-county Metropolitan Denver Scientific and Cultural Facilities District, and Salt Lake County in Utah, each levy an earmarked one-tenth of a sales tax point for the arts and culture. In Denver this tax raises about \$15 per person, and in Salt Lake about \$17 per person. If an earmarked tax could be designed that would raise \$16 per person in Clayton, Cobb, DeKalb, Fulton and Gwinnett counties, with a combined population of just over three million persons, total revenues would be about \$50 million.

Some caveats are in order in the interpretation of the \$50 million figure.

First, it is an approximation, although we can demonstrate that \$16 per person from one-tenth of one percent of sales tax in the five combined counties is not going to be wildly off the mark.

Second, both Denver and Salt Lake use their earmarked revenues for a wide range of cultural activities: in Denver over 40% of the revenues raised go to the Museum of Science and Nature, the Zoo, and the Botanical Gardens, and in Salt Lake over 40% of the revenues go to the Zoo and the Department of Parks and Recreation. So if Metro Atlanta were looking for an earmarked tax specifically for the arts, one-tenth of one percent of sales tax is actually substantially more revenue per person for the arts than is raised in Denver or Salt Lake.

Third, following from the second point, it is important to remember that sound policy in the arts requires thinking about what programs would best serve the interests of the community, and the degree to which public funding would need to be a part of those programs, before looking into what revenue could be raised from different sources. Only after discussion of the issues raised above would it make sense to ask what sort of earmarked tax if any is appropriate, and what the revenue target ought to be.

Economists have found that the public seems to have more willingness to accept taxes, especially new taxes, when they are earmarked for a particular purpose. In the arts, we have seen evidence from a number of US cities where earmarked taxes for the arts receive strong voter approval both for their implementation and their renewal.

Whether that same support would be found in Metro Atlanta depends on a number of factors. Cities where proposals for earmarked taxes for the arts have failed to gain approval show us that questions about how funds will be distributed across a region, and what the purpose of the funding is, must be answered before voters will be willing to give their support.

Beyond this, there needs to be an articulation of the public interest in the arts, and in turn what will be the criteria for funded projects. And in particular, defining the public interest in the arts will require some consensus-building across cultural groups. This is a challenge, but it has been done elsewhere, and the different cultural communities of Atlanta could benefit in many ways from a discussion of our common interest in preserving, experiencing, and enhancing our cultural life.

Sustainable Funding for the Arts:
Earmarked Taxes and Options for Metropolitan Atlanta

Michael Rushton

1. Introduction

On June 13, 2002 the first meeting was held of the Regional Arts Task Force, assembled by the Metro Atlanta Chamber of Commerce. Meetings of the Task Force through 2002 were open to the public, and a number of special “listening sessions” were held in various locations in the Metro area.

The mission of the Task Force is: “To make the Atlanta region a premier center for the arts, and for it to be recognized as such.” The Task Force members unanimously selected an Arts and Culture Vision Statement: “Arts and Culture will be recognized as defining elements of the quality of life in the Atlanta region.”

From its very first meeting the Task Force gave a grade of “C” to Atlanta as an arts center, and claimed that Atlanta is not achieving its full potential, notwithstanding the private contributions to the arts made by residents and businesses in Metro Atlanta, and the funding support of the Georgia Council for the Arts, County-level arts councils in Fulton, DeKalb and Gwinnett, and the Metropolitan Atlanta Arts Fund, now in its tenth year of operations.

Three “root causes” of the problem were selected as the highest priorities of the Task Force:

- A regional vision and strategy for the arts;
- A coordinated regional arts leadership; and
- A sustained regional funding mechanism.

Through the Task Force’s deliberations, the questions arose as to whether much could be achieved without stable funding. As the press reported of one of the Task Force’s meetings: “Metro Atlanta’s top leaders made an unprecedented commitment to arts and culture ... but until it’s backed up with dollars there’s still no telling how far their good intentions will go.”¹

¹ “Agency to push metro arts funding” *Atlanta Journal-Constitution*, August 30, 2002.

This study considers a type of sustained funding mechanism that has been tried in other US cities and metro areas, an earmarked revenue source for the arts. It does not address the questions of a regional vision and strategy, or a coordinated regional arts leadership, although it will become clear reading this paper that the question of vision, and an articulation of the *public* interest in the support of the arts, are a critical part of any discussion of funding sources. The study follows a previous *Research Atlanta* look at the arts in Metro Atlanta, Kushner and Brooks (2000), which, like the Chamber of Commerce Task Force, gave a rather middling grade to Atlanta's arts economy.

2. A Survey of Earmarked Taxes for the Arts

Earmarked taxes can either assign receipts from a single tax base to a dedicated end use, or, what is more common for the arts, dedicate a *proportion* of a wider pool of revenue to a dedicated end use. The earmarked taxes familiar to most Americans are the federal government's Manufacturers' Excise Tax on Gasoline, which is devoted to the Highway Trust Fund, and, of course, the Social Security System. Georgia residents in particular are most familiar with the earmarking of lottery revenues for education.

The highways and Social Security examples have the earmarked tax resemble a "user fee": citizens are contributing to the pool of revenue in a way proportional (to a degree) to their use of the good that is being financed. However, as is the case with Georgia lotteries, it is not necessary for the source of an earmarked tax to be linked in any way to use or benefits from whatever public good is being financed.

We will consider some of the issues that have been raised about the principle of using earmarked taxes in a later section of the paper. But first, in this section, we will take a tour through a selection of US cities that have adopted earmarked taxes for the arts.

We find that although in principle there are as many ways of creating an earmarked tax for the arts as there are sources of government revenue, for major metropolitan areas in the US there are three options that dominate: the retail sales tax; occupancy taxes on hotels, motels and the like (usually simply referred to as hotel/motel taxes); and, the property tax.

There are other options that we find applied at the state or national level. For example:

- *Lottery revenues*: The Georgia lottery has proven to be remarkably politically successful as an earmarked tax for education. In the UK, and in many Canadian provinces, lottery revenues are earmarked for the arts.
- *License plates*: California, Florida, Indiana, Tennessee and Texas all have specialty “arts tag” license plates. This is not so much an earmarked tax as it is the use of the government collection of license fees to facilitate voluntary contributions by residents to state arts agencies (or, as in Florida, to county arts agencies, as the funds are distributed according to the county where the money was raised). In some cases the revenues raised through this method can be substantial: in Tennessee, for example, two-thirds of its state arts council grants budget comes from license plate revenues. Typically a patron of the license plate program will pay between \$25 and \$35 for a specialty plate. Looking to Georgia’s neighbors, we find that the take-up rate has been substantially stronger in Tennessee than in Florida. If Georgia implemented a license plate scheme and raised the same revenues per capita as are annually raised in Tennessee, the take would be about \$3.9 million per year. However, if the revenues per capita were on a par with Florida, the expected take would be about \$400,000. Note that license plates for the arts are not solely about raising revenue; they also raise awareness of the arts and hopefully help build public support.
- *Corporate Filing Fees*: Arizona and Florida each use a portion of the filing fees of for-profit corporations to fund a state arts and culture trust fund.

But for metropolitan areas, earmarked taxes for the arts have been implemented using tax bases where the city or county has some scope for setting the tax rates, which is why we see the dominance of sales, hotel/motel, and property taxes.

Retail Sales Tax: Denver

Revenue Source: Denver’s Scientific and Cultural Facilities District (SCFD) distributes funds raised through a one-tenth of one percent sales tax,

introduced in 1989 (and reaffirmed by voters in 1994 with 57% of the vote, with a sunset clause for 2006), over seven counties of Metropolitan Denver. Denver residents pay, in total, a retail sales tax of 7.2%. In 2001 \$37 million was granted to more than 300 organizations.²

Distribution: The SCFD has a ten-member Board of Directors, with each of the seven county commissioners appointing one member (except in Denver county, where the City Council selects the member), and three members appointed by the Colorado governor.

By statute the four Tier I organizations in the district receive 59% of the total funds, this proportion being divided as follows:

- 33% to the Denver Museum of Nature and Science
- 28% to the Denver Art Museum
- 26% to the Denver Zoo, and
- 15% to the Denver Botanical Gardens.

These organizations can also apply for additional funding on an annual basis, with applications reviewed by the SCFD Board, which uses the criteria of regional impact, artistic quality, accessibility (i.e. diversification of audience, board, staff, or volunteers), need, collaboration, and innovation. Even though they are guaranteed funding, they are still required to report on an annual basis how funds were used.

Tier II organizations receive 28% of funds; these organizations must have been in existence for at least two years and have annual operating income of at least \$900,000. Allocations to Tier II organizations are determined by the SCFD Board. Tier III organizations are the “local” arts organizations, and receive 13% of the funds. The distribution to each county is proportionate to the funds raised there. At this tier the local county cultural council receives proposals and then presents a funding plan to the SCFD commissioners. Organizations receiving funding must be either nonprofit or an agency of local government, and must principally benefit residents of the cultural district.

Discussion: Local officials note the great acrimony that greeted the initial proposals for an earmarked tax that would, as in St. Louis (discussed below), be directed only at what are now known as “Tier I” institutions. Negotiations eventually led to the three-tier structure.

² Institutional details are available at the SCFD website: [<http://www.scfid.org>].

Asked to describe the successes of the program, an official wrote:

Major accomplishments for the district have been to improve accessibility to cultural programming for the residents of the district, encouraging and achieving collaborations between organizations across county and tier boundaries in areas of marketing, development and education, creating and developing education departments and programs in the cultural institutions, and allowing individuals to begin pursuing careers in culture rather than merely filling jobs. The district has also created a sense of community identity for cultural institutions – it provides a framework for beginning to identify who are colleagues, and who are peers. Also for the first time, data has been collected on the cultural institutions in the district – revenue levels, attendance, geographic and demographic service provisions, etc.³

A downside, always possible with an earmarked tax, is that arts funding at the state level has dropped to fiftieth out of fifty states, with critics contending that the state government is using the SCFD as an excuse for cutting state-level funding.⁴ The criticism is perhaps unwarranted, since even in 1988, before the SCFD was created, Colorado ranked 47th in state arts agency legislative appropriations, and has since that time consistently ranked near the bottom in interstate rankings.⁵ Still, the issue reminds us of the tensions that might arise between a metropolitan area adopting an earmarked tax and the regions of the state outside of the metro area who might find their main sources of funding cut as a result.

That being said, Denver is generally regarded as a success story in local arts funding. The Kushner and Brooks (2000) *Research Atlanta* study ranked Denver high in number of arts nonprofits per capita, and in revenues of arts nonprofits per capita. The arts are a salient issue in local politics; the 2003 mayoral election campaign's first candidate debate was devoted to arts and culture.⁶

³ Correspondence with the author.

⁴ "Why we're last." *Denver Post*, January 26, 2003.

⁵ National Assembly of State Arts Agencies, *State Arts Agency Public Funding Sourcebook*, (Washington DC, 2003).

⁶ "7 mayoral candidates offer ideas to promote the arts." *Denver Post*, January 22, 2003.

Retail Sales Tax: Salt Lake

Revenue Source: Salt Lake County, which includes Salt Lake City and its suburbs, began a one-tenth of one percent sales tax in 1997 to fund the arts and recreation, the Zoo, Arts and Parks, or ZAP tax.⁷ Salt Lake City residents pay a total retail sales tax of 6.6%, which is divided into 4.75 for the state and 1.85 for the city. In 2001 the tax collected just over \$15.5 million.

Distribution: The County takes 1.5% of revenues to administer the program, and then distributes as follows:

- Tier I (large; averaging over \$287,000 per year in expenditures) organizations (22 in number) received 52.5%
- Tier II (small; averaging less than \$287,000 per year in expenditures) organizations (92 in number) received 5%
- Hogle Zoo received 12.5%
- Parks and Recreation 30%.

All organizations seeking funding must submit an application with a specific plan of how money will be spent. An advisory board reviews the arts applications and makes a recommendation to the Salt Lake County Council, which makes the final determination on the amount of funding going to each organization.

Discussion: The allocation process has not been without controversy. The County Council recently overruled its advisory board on appeal from two organizations which had initially been rejected for funding, one because it was a heritage park of early Mormon life in the state that did not have an obvious link to the funding criteria of “natural history, art, music, theater or dance”, and one because it was a theater recently converted from for-profit to nonprofit status, reportedly precisely because it would create eligibility for ZAP revenues, that had no obvious public benefit.⁸ The local press noted that the latter case may have been driven by the politics of geography, being one of the few Tier I organizations not located in Salt Lake City.

⁷ Many details of the program can be found at its website [<http://www.slcozap.org>].

⁸ “Refine ZAP Tax Rules.” *Salt Lake Tribune*, August 9, 2002.

Tier I organizations are reasonably assured of receiving funds, which are based on qualifying expenditures. Tier II organizations also receive funds based on qualifying expenditures, but also on such factors as benefit to the community, how they plan to use the funds, and whether there has been previous funding.

Local officials report that a major goal of the program was to provide the stability necessary for arts organizations to enhance their programs and, notably, outreach to the community. High popular support for the tax is cited, with a recent poll showing 86% would vote for a continuation of the tax. Note the contrast with when the ZAP was initially proposed; some arts organizations were opposed on the grounds that it might make private fundraising more difficult or that they might be left out of the program. There was a particular concern among smaller organizations about the amount going to Tier I organizations. But officials report that once the ZAP was in place a consensus in support of the program developed.

The main challenge facing the program is that more organizations are competing for funding, which might lead to diminution. On the other hand, this might be seen as a sign of a valuable cultural dynamism.

Retail Sales Tax: St. Paul

Revenue Source: In 1993 the Minnesota State Legislature authorized a ½ cent sales tax, known as the Sales Tax Revitalization Program (STAR) for St. Paul. For St. Paul this is the only city sales tax; the state tax rate is 6.5% so retail sales in St. Paul are taxed at a total rate of 7%. The St. Paul City Council designated 10 percent of the STAR revenues for grants and loans for cultural projects, and in 1997 began to also award funding for organizational development in cultural organizations. The cultural portion of the STAR was initially awarding just over \$1 million annually, but this has fallen in recent years, and for 2002 the allocation was \$907,000.

Distribution: At least 80 percent of cultural STAR revenues must be invested within a designated cultural district, with the remaining funds applicable to other organizations within the St. Paul city limits. Operational grants are limited to 25 percent of the average annual budget for the previous three years to a maximum of \$50,000. Other grants or loans must be matched on a one-for-one basis. A nine-member Cultural District Board (with five members appointed by the Mayor with the approval of the City Council, and

four members elected by cultural organizations in the cultural district) administers a competitive application process, which includes interviews of eligible applicants that are open to the public (although no public testimony is given) and then makes recommendations to the Mayor and City Council. Only organizations may apply for funds; there is no funding for individual artists.

Discussion: The Cultural STAR program lists as its goals: (1) to develop and improve cultural facilities; (2) to strengthen cultural organizations; and, (3) to attract audiences to downtown St. Paul. Applicants are rated by the following criteria:

- Impact of the project on the applicant organization and/or the cultural life of St. Paul;
- Quality of the proposal and project plan;
- Demonstrated ability of the applicant organization to complete the project as planned.

As the name of the program suggests, *revitalization* is the key objective. The main portion of STAR revenue is for capital projects in neighborhood revitalization, and the cultural component is clearly meant to complement this overarching goal. The arts community is generally pleased with the commitment to the arts in St. Paul shown by Mayor Randy Kelly, who has pledged to create “a mecca for artists, theater, culture, fine arts and entertainment in a way that has revitalized great cities across America.”⁹ A special feature of St. Paul is that it is one city in a set of twins, and there is a strong sense of competition with Minneapolis. The Kushner and Brooks (2000) *Research Atlanta* study comparing different metropolitan areas ranked Minneapolis-St. Paul highly in terms of support for nonprofit arts organizations, in many arts indicators coming first among the twenty metropolitan areas in the study, but this success masks the trends *within* the twin cities area, and so in St. Paul there remains a sense that dedicated and active support of the arts is a continuing need.

Retail Sales Tax: Pittsburgh

Revenue Source: Allegheny County, which includes the city of Pittsburgh, has established the Allegheny Regional Asset District (ARAD), which imposes a 1 percent sales tax (on top of an existing state sales tax of 6%, giving a total sales tax rate of 7%). Of the proceeds, 25 percent goes to

⁹ “Kelly smoothes bumps on way to building St. Paul arts plan.” *St. Paul Star Tribune*, July 14, 2002.

municipal governments in the county, 25 percent goes to the county government, and 50 percent goes to ARAD. In 2003 expected proceeds to ARAD are \$75.3 million. The largest share of this goes to libraries, followed by parks. In 2003 just over \$4 million goes to grants for nonprofit arts and humanities organizations.

Distribution: The allocation of funds is determined by a seven-member Board of Directors, consisting of four members appointed by the County Chief Executive, two by the Mayor of Pittsburgh, and one elected by the other six members. The Board of Directors also appoints a twenty-seven person advisory board to provide public input and to comment on policies and procedures. Each proposed allocation requires the approval of at least six members of the Board of Directors. Funds go to arts organizations of all sizes, with priority given to organizations that make special efforts at outreach to youth, especially those that are traditionally underserved by cultural organizations.

Discussion: In the Kushner and Brooks (2000) *Research Atlanta* study Pittsburgh ranked high in total revenues of arts nonprofits per capita, even though Pittsburgh's per capita income was relatively low. There is competition in ARAD's funding between libraries, parks, "special facilities" (the zoo, conservatory, and similar institutions), and sports facilities, but support for the public funding of arts was given a boost when an 2002 advisory committee to ARAD regarding its priorities through the next five years recommended establishing a guarantee of at least 5 percent of ARAD's budget to go to arts and culture.

The special sales tax was implemented because of a need for additional revenues at the county and municipal level combined with unwillingness to increase property taxes. ARAD cites the benefits of using a sales tax as the low administration cost (since it is simply an add-on to the state sales tax), the estimate that 25 percent of sales tax revenues come from non-residents, and that an extensive list of exemptions from the tax, especially necessities, keeps the tax from being regressive (we return to this question later in the study).

Hotel/Motel Tax: San Francisco

Revenue Source: The Grants for the Arts/San Francisco Hotel Tax Fund (GFTA) was established in 1961, the first in the nation. The hotel tax rate is

14 percent, and of each dollar raised by this tax 8.5 cents is allocated to grants for the arts; i.e. the earmarked tax for the arts is effectively a hotel tax rate of 1.2 percent. For 2002/03 total expenditures were \$15.5 million, of which 4 percent is applied to administration expenses and the remaining 96 percent goes directly to support of the arts.

Distribution: Over 80 percent of the GFTA budget goes to general operations support grants, to a large number of organizations (to illustrate, for 2002-03 there were grants of at least \$7,500 to each of thirty-three dance organizations). The rest of the funding was devoted to special grants, support services, and cultural tourism.

GFTA staff review applications, make site visits and perform consultations with experts in the field, and then present recommendations to a Citizens Advisory Committee, meant to assure public accountability. The Advisory Committee in turn makes funding recommendations to the Mayor.

Discussion: In its own statements the GFTA claims that its “foremost goal is to be a stable, dependable base of support for organizations that continue to meet the funding criteria. Emphasis is placed on the cultural diversity of its funding recipients, with a goal “to contribute meaningfully to the presentation and enhancement of existing art forms while assuring the ability of others to experiment, to dare, and to find new as yet untested ways of adding to our cultural lives.”¹⁰

San Francisco has an international reputation as a city of cultural diversity, excellence, and excitement, and the GFTA has a clear mandate to maintain this status.

Hotel/Motel Tax: Houston

Revenue Source: The state of Texas levies a hotel/motel tax rate of 6 percent, and selected counties are permitted to impose a tax in addition to the six percent. These local taxes must be used to promote tourism and the hotel and convention industry (i.e. they are earmarked and cannot be used for general revenues), but the scope is defined widely enough that this includes expenditures on the arts. The statutes set a limit for the county add-on of 7 percent, but this can be exceeded with special permission. Houston

¹⁰ [http://www.sfgfta.org/grants_html/hist.html].

and Harris County levy an 11 percent tax, for a total occupancy tax of 17 percent (very high by national standards). Houston allocates 19 percent of its hotel tax revenues to the Cultural Arts Council of Houston and Harris County (CACHH). Note this is a greater amount than most Texas counties, where on average 11.7 percent of hotel tax revenues are devoted to the arts.¹¹ This was the major source of funding for the CACHH, which also receives a smaller amount from the Texas Commission on the Arts. In 2002 CACHH awarded \$6.8 million to 179 arts nonprofit organizations.

Distribution: The CACHH is governed by a twenty-six-member volunteer board of directors and a set of eight subcommittees that oversee program operations. Funding is for operations and technical support for nonprofit arts organizations of all sizes. An innovation adopted in 2003 to streamline the application process is a move to a two-year funding cycle. This strikes a balance between ensuring that new arts organizations are eligible for funding, while recognizing that most organizations receiving funding in one year would ordinarily also win funding in the following year.

Discussion: The CACHH places somewhat more stress than other local arts councils on promoting tourism and the hotel and convention industry, owing to guidelines set out in the Texas Tax Code.

The Kushner and Brooks (2000) study ranks Houston next to Atlanta in terms of the number of arts nonprofits per capita, in the lower end of their twenty-city sample, but Houston is in the middle of the sample when it comes to total revenues for arts nonprofits per capita. Like Atlanta, Houston has a large minority share of the population, but unlike Atlanta, Houston has a low degree of suburbanization.

Hotel/Motel Tax: Columbus, Ohio

Revenue Source: Columbus levies a hotel/motel tax rate of 15.75 percent, which currently raises \$11 million per year; the Greater Columbus Arts Council (GCAC) receives 25 per cent of this tax, to a maximum of \$3.3 million. In its most recent annual report, for 2001, GCAC was allotted the \$3.3 million maximum. The total budget of GCAC for 2001 was \$4.6

¹¹ Texas Department of Economic Development, *Texas Local Hotel Tax Report 2001* [http://research.travel.state.tx.us/tourism/hotelmot/Tax_Report_File.pdf].

million, with additional funding coming from corporate support and the Ohio Arts Council; we note the earmarked tax is almost $\frac{3}{4}$ of its total budget.

Distribution: Funding is through a competitive application system through GCAC. In 2001 \$2.5 million went to community funding projects, including funds for operating support, project support, technical assistance, and a community arts fund that provides unrestricted support to small arts groups. GCAC also awards individual artist fellowships. Applicants are required to show an ability to raise matching funds, artistic excellence and community participation and governance.

Discussion: The GCAC stresses in its literature that the goal of its funding is to enhance the cultural opportunities for communities, families and children, with programs designed primarily for tourists explicitly given a lower priority.

The GCAC funds a community arts education program, which represents an interesting example of an arts council partnering with the local public school system. GCAC funds an artists-in-schools program, and “Children of the Future,” an after school program that involves at-risk youth in cultural activities.

Hotel/Motel Tax: St. Louis

Revenue Source: St. Louis City and County levies a 3.75 percent hotel/motel tax. Of the amount collected, 11/15 goes to the St. Louis Convention and Visitors Commission, and 4/15 goes to the Regional Arts Commission of St. Louis. In 2001 it awarded \$3.35 million in grants to 195 organizations for operating support, and \$3.56 million in total grants.

Distribution: Nonprofit arts organizations (not including the art museum, which is part of the Zoo Museum District, discussed below) apply for funding in a competitive process. The fifteen-member Commission is appointed by the Mayor and the County Executive. They in turn select a citizen panel, with nominations from the community, who review the funding proposals. The citizen panelists are expected to have good knowledge of at least one of the arts forms funded, and to have an understanding of the St. Louis community. The selection of the citizen panel also aims to achieve cultural diversity.

Discussion: Like the previous example of Columbus, applicants are expected to demonstrate the cultural benefits to the local community, not just visitors. Applicants are required to have a “demonstrable level of public outreach programs.” A “balanced scorecard” approach is used in ranking applications, with 40 points for artistic merit, 20 points for cultural or economic impact, 20 points for accountable and effective management, and 20 points for audience development.

Property Tax: St. Louis

Revenue Source: The Zoo Museum District (ZMD) was founded in 1972 and now funds five institutions: the Zoo, Science Center, Botanical Garden, Historical Society, and the Art Museum. The funding is a portion of city and county property taxes that in 2002 secured \$52.6 million (note over 80 percent of this revenue is from the primarily suburban St. Louis County). The total property tax rate is 22.2 cents per \$100 assessed valuation. Note that the ZMD funding is substantially more than distributed by the Regional Arts Commission of St. Louis, discussed above, which has annual grants just over \$3 million. The District retains 2% of the funds for administration, but typically uses less than 1%, and distributes the remainder to the five eligible institutions.

Distribution: An eight-member Board oversees the District, with four members appointed by the Mayor of St. Louis and four by the County Executive. Only the five institutions listed above receive funding, with each receiving funding according to the mill rate that has been approved by voters. The current rates are:

- Zoo 6.1 cents per \$100 assessed valuation
- Art Museum 6.1
- History Museum 3.8
- Science Center 3.1
- Botanical Garden 3.1

Discussion: The Zoo Museum District (ZMD) is not primarily about arts organizations, but it still serves as a potential model for the arts in other cities like Atlanta, especially if the primary goal of the earmarked tax were to develop a small set of large-sized world-class cultural institutions.

Local officials cite the success of the program, which has broad popular support. They note that the funding allows residents to have access to world-class institutions at no admission fees (except the Botanical Garden), and the organizations perform substantial outreach especially in conjunction with schools.

However, a cultural assessment of St. Louis noted that the success of its large institutions (note that although the symphony is not part of the ZMD, it is a very successful organization in terms of private fundraising) can cause observers to overlook the difficult circumstances facing medium-sized institutions (Wyszomirski, 2002, notes that this is a national problem, not just one applying to St. Louis).¹² This is especially true at present, as dire fiscal conditions at the state level have caused the Governor to propose eliminating all funding at that level.¹³

Kushner and Brooks (2000) found that St. Louis was not a strong performer in its measures of nonprofit arts activity, with a number of arts nonprofits per capita and total revenues of arts nonprofits per capita in the bottom half of the twenty-city survey, in each measure very close to Atlanta.

3. Two Cautionary Tales

In this section we consider two recent cases where there was an opportunity for a new earmarked tax for the arts that failed.

Kansas City

Metropolitan Kansas City has the complication of spanning two states. During August of 2002, an initiative promoted by the Arts Council of Metropolitan Kansas City for a one-eighth-cent sales tax to be applied on either side of the state line went to the Jackson County (MO) legislature, in order to secure a place on the ballot in the November general elections. The proposal was known as “Bistate II,” since there had been a previous bi-state earmarked tax for developing Union Station. In the county legislature, supporters claimed that putting the initiative on the ballot would be relatively costless, and that there was likelihood of public support for the initiative, however: “several legislators said the arts community had not

¹² “Arts Funding in St. Louis” [<http://www.stlouis2004.org/html/study/artsfunding.html>].

¹³ “Missouri Arts Council must plan for loss of state funding,” *St. Louis Post-Dispatch*, February 1, 2003.

offered enough information about what they would do with the tax money. ‘We have an obligation to the taxpayers that we don’t fork over \$240 million with no accountability,’ said Victor Callahan, legislative chairman. ‘It’s missing all the essential elements needed to put it before voters.’”¹⁴

The sales tax initiative followed on the heels of an earlier proposal from the Chamber of Commerce of Greater Kansas City that would have imposed the earmarked sales tax for twenty years not only for the arts but also for sports stadiums. But uncertainty over the economy and a lease agreement with the Major League Baseball franchise led Chamber officials to want to postpone any such initiative until 2004, and this delay led arts groups to push for an arts only tax instead, which envisioned \$40 million for an arts center and the rest of the funds divided amongst arts organizations of all sizes.¹⁵

In the end the Jackson County legislature did give approval to a form of earmarked tax, but one that would have mandated a large proportion of the funds from the bi-state tax be spent in that county. Backers of the proposal initially brought to the County legislature realized this would have little chance of electoral success:

And with much of the rest of the proposed Bistate II revenues already going to Missouri-side projects, anyone could see this laundry list from Jackson County was not going to play well west of State Line. You may convince the average guy in Olathe [Kansas] to raise his taxes for a major performing arts center downtown. But \$40 million on a performing arts center in far off Independence? That’s not going to fly even if he’s sympathetic to the cultural privations of Eastern Jackson County.¹⁶

The claim is made in Kansas City that a proposal linking arts and major sports would have little chance of success, because crumbling public infrastructure, especially roads, made investing large amounts in sports stadiums an unpopular idea; however, a tax for the arts alone might have a chance for success.¹⁷

¹⁴ “Ballot measure for Kansas City Arts funding clears hurdle.” *Kansas City Star*, August 13, 2002.

¹⁵ Ibid.

¹⁶ “Jackson County leaders learn the art of killing the deal.”

[http://www.kansascity.com/mld/kansascity/news/columnists/mike_hendricks/3904604.htm] posted August 21, 2002.

¹⁷ “The power of art” *Kansas City Magazine*, November 2002.

Detroit

On November 5, 2002, voters in Metropolitan Detroit's Wayne and Oakland Counties defeated Proposal K, an earmarked tax for the arts.¹⁸ Proposal K was a 0.5-mill assessment on residential and commercial properties, expected to raise \$46 million per year. The tax would be levied for ten years. Two-thirds of the funds would have gone to seventeen designated large and medium sized cultural institutions in the two counties, with the remaining funds being allocated to local communities. A council of nine members, chosen to ensure geographical balance, would have had oversight regarding the distribution of the funds.¹⁹

Michigan has had a turbulent history of arts funding. In 1991 Governor John Engler declared himself philosophically opposed to taxpayer funding of the arts, and eliminated the state arts council. In 1996 a reorganized Michigan Council for the Arts and Cultural Affairs was formed, and gave some stability until 2003, when Governor Jennifer Granholm, in general a supporter of arts funding (as arts advocates in the state acknowledge), cut the state arts budget in half as a result of severe fiscal pressure.²⁰

Proposal K was meant, in part, to insulate arts organizations from economic fluctuations. Its failure, following a narrow defeat for a similar proposal in the year 2000, has been seen as a last chance for such a tax in Metropolitan Detroit.²¹ The Proposal required at least 50 percent support from suburban Oakland County, and 60 percent support from Wayne County, which includes the City of Detroit. The measure failed in each county, gaining 46 percent in Oakland and 57 percent in Wayne.

Why did the Proposal fail? There was a concerted effort by arts groups for passage, and \$3 million of financing for the campaign. Commenting on the defeat, Steve Hemp, president of Henry Ford Museum & Greenfield Village (which was slated to receive \$4 million from the new funding) said, "We made a compelling case, but voters just don't understand what it takes to

¹⁸ "Arts, recreation tax fails again." *Detroit Free Press*, November 6, 2002.

¹⁹ "Facts about Proposal K." *Detroit Free Press*, October 7, 2002.

²⁰ "Governor proposes cutting arts funding in half." *Detroit Free Press*, March 7, 2003.

²¹ "Proposal K: sink or swim." *Detroit Free Press*, October 7, 2002.

fund cultural institutions,”²² which we would note is, first, not necessarily true, and second, unlikely to be a sentiment that will increase voter support for any future initiatives.

The local press reports on four kinds of opposition that were raised about the tax:

- It had been rejected previously by voters;
- The arts should in general be market-driven;
- The tax would be levied on some low-income residents who would have neither the time nor the income to visit the cultural institutions; and
- The tax would be levied on residents of two counties when people from neighboring counties would receive some of the benefits of the funding (by visiting Metro area attractions) without paying for them.²³

We have no way of knowing whether any of these four sentiments, or something else entirely, was behind the rejection of the tax. Could the concern be general uncertainty about economic conditions? We should not expect this to have an effect. After all, the purpose of earmarking a tax is that it will be in place regardless of swings in the economy or government budget deficits. If people were unwilling to vote for an earmarked tax because “the time was not right” it raises serious questions about whether it would ever be a good idea to have such a tax.

4. Earmarked Taxes for the Arts: General Considerations

Table 1 summarizes some of the questions and options for earmarked taxes for the arts, considering the various possible goals of the program, what institutions would receive funding, how the funds would be allocated, and what tax base. As the brief tour of some other US cities will have made clear, there are many possible combinations of answers to these questions. This part of the study is devoted to looking in more depth at these questions.

²² “Arts, recreation tax fails again.” Op. cit.

²³ “Proposal K: sink or swim.” Op. cit.

Table 1: Options for Earmarked Taxes

<i>Objectives</i>	<i>Who Receives Funding?</i>	<i>Who Decides?</i>	<i>Tax Base</i>
Fostering excellence in the arts	Large, established organizations	Newly-formed body allocates based on competitive process	Retail Sales Tax
Arts education and the development of knowledge and appreciation of the arts	Large and medium-sized organizations	No competition: all funding set by statutory allocation	Hotel/Motel Occupancy Tax
Providing improved access to the arts for those with otherwise limited opportunities	Arts organizations of all sizes	Funding of large organizations by statute, of smaller organizations by competition	Property Tax
Building community and social capital	Community-based arts organizations only	Funds used to supplement programs of existing arts council(s)	
Attracting tourism and convention visitors	Arts organizations focused on attracting visitors		

Note the possible combinations in this Table are many: for example, a metropolitan area might choose to use an earmarked portion of the retail sales tax to provide improved access to the arts for those who otherwise have limited opportunities, through funding arts organizations of all sizes through the programs of existing public arts councils.

How do the three tax bases compare?

For any proposal for an earmarked tax for the arts, voters will be considering who will bear the burden of the tax. Arts advocates will be interested in whether the source will provide stable, sustainable funding. We consider each of these aspects for the three usual tax bases for arts funding.

Retail Sales Tax:

- The retail sales tax is paid by consumers of the goods and services that comprise the tax base. While a retail sales tax that applied to all goods and services would be regressive (i.e. the poor would pay a higher proportion of their annual income towards that tax than would the rich), the usual tax exemption for necessities mitigates the regressivity. From a resident's point of view another positive aspect of the tax is that at least some proportion will be paid by visitors to the area.
- For arts advocates, the retail sales tax has the advantage of generally showing a pattern of stable growth with low fluctuations from year to year. Sales tax rates in the five core counties of Metro Atlanta range from 5% to 7%, the same range where we find the other US cities that have adopted earmarked retail sales taxes for the arts, and so there are unlikely to be complaints that Metro sales tax rates are already out of line with other jurisdictions.

Hotel/Motel Tax:

- While the hotel/motel tax is collected for the most part from visitors to the area, it is not entirely the case that visitors truly bear all the burden of the tax. An increase in the occupancy tax rate will increase the price of visiting the area, and by the law of demand we would expect that the number of visits would fall. The more demand falls, the more the hotel/motel tax is felt by residents in lost income; the burden of the tax is shared between visitors and residents. Estimating how the true burden of the tax would be divided is a very difficult task. But we can make the following generalization: the more that the area is competing for visitors on the basis of price with other jurisdictions – as might be the case if conventions were a substantial proportion of the total visitors to the area – the more a hotel/motel tax will be felt in the local economy as an economic burden. The more that visitors are coming to the area with less regard for price, perhaps because of very

- fine amenities, the more that the burden of the tax will be paid by those visitors. It is no surprise that San Francisco chose a hotel/motel tax for its arts funding.
- The major drawback of the hotel/motel tax is its instability; the past two years have provided solid confirmation of the uncertainty of tourist revenues in regions that have come to depend on them. Although, as we have seen above in this study, hotel/motel taxes are a popular choice for earmarked taxes for the arts, it is somewhat paradoxical that such a variable revenue source is applied when the very purpose of earmarking is to insulate arts organizations from high variance in funding.

Property Tax:

- The burden of the property tax is not easy to discern. Pechman and Okner (1974) find that if we assume a fixed supply of housing and improvements, so that all of the property tax is borne by landowners, then the property tax is not easily classified as progressive or regressive. However, if the assumption is that while landowners bear the burden of the portion of the tax falling on land, the rest of the burden is borne by the users of the improvements (who, of course, might also be owners), then the property tax is regressive throughout the entire income distribution. Davies, St-Hilaire and Whalley (1984) take us beyond asking about what portion of a person's annual income is paid to a particular tax, and ask what portion of a person's *lifetime* income goes to that tax, which is probably more relevant to the property tax. In general, lifetime income is more equally distributed than annual income across the population. They find that the property tax is actually slightly progressive when we ask how lifetime property taxes paid varies with lifetime income.
- Local officials in Denver report that in the debates surrounding their introduction of an earmarked tax, the sales tax was chosen over the property tax since the growth potential appeared greater, and that it seemed there was less public resistance to a sales tax. On this question there will be different opinion from city to city depending on the existing structure of taxes and whether one tax in particular is already seen as being too high.

Is earmarking taxes good public policy?

Economists have been divided on whether earmarked taxes are a good or bad idea, and the division is not one that can be expressed along the left vs. right notions we often find in economic debate in the popular media.

The first thing we note is that an earmarked tax is a restriction placed on those who make public budgeting decisions. It is not perfectly binding, since whatever body enacted the tax will always at some point have the option of repealing it, but clearly the intent is to place restrictions on how budgets will be drawn. This immediately raises the question of *why* we would want to do this: after all, is it not better to allow decision-makers in the public sector as much flexibility as possible in choosing an allocation of spending that best satisfies the public interest? In fact this is the principal argument against earmarked taxes: they reduce flexibility in budget-making, and cities and counties will often need flexibility in dealing with unforeseen contingencies.

Any argument in favor of an earmarked tax for the arts will have to address the criticism that the earmarking reduces the ability of public budget-makers to deal with changing circumstances. In general, where economists have spoken in favor of earmarking it is because the reduction in the scope of what decision-makers can do is a *positive* aspect of the tax.

The way to approach this is to think in terms of the implicit “contract” that is made between voters and politicians. Politicians make promises on what priorities they will bring to office if elected, and receive votes on that basis. But in the real world of politics the terms of the contract are extremely vague, since voters know that politicians will when in office have access to detailed information on policies and spending that ordinary voters do not have time to gather, and that they will often need to make adjustments to what was promised on the basis of new information. The problem is that voters will have no way to verify whether a change in policy from what the politician had promised was justified in terms of the public good based on new information that had come to light, or whether the politician in fact always knew that the promise could not be kept, but lied in order to gain office, or whether the change in policy is for the politician completely self-serving, say to appease an influential lobby. In such circumstances, we might have better political outcomes if politicians can, on some issues, *guarantee* some policy. An earmarked tax is a way to achieve this.

Before jumping to the conclusion that this model is suggesting that politics is an utter den of corruption, we should remember that our economy has many situations where one party to a contract has a great informational advantage over the other party, and so in order to gain confidence finds a way to bind herself to certain courses of action. Consider, for example, nonprofit organizations in the arts. Arts organizations have an implicit contract with donors that donated funds will be devoted to enhancing the mission of the organization and not to personally enriching the trustees of the organization. Most donors cannot obtain all the information necessary to monitor whether this has been done. But donations occur in any case, because in adopting the status of “nonprofit” the organization is pledging that any excess of revenues over costs cannot be distributed to trustees but *must* be used to further the organization’s mission. Indeed Hansmann (1980) considers this “nondistribution constraint” to be the defining feature of the nonprofit organization. This is an example where a constraint on behavior actually enhances the efficacy of the organization.

So in the context of an earmarked tax for the arts, for example, we should think of this as a way for elected officials to make a more credible promise to voters than would otherwise be possible. Nobel prize-winning economist James Buchanan (1963), famously skeptical of the ability of governments to keep promises, and to limit their growth in expenditures, favored earmarking as a way of giving some power over spending decisions back to voters. But other economists have seen earmarking as a way of overcoming voter resistance to tax increases, and so, contrary to Buchanan, as a way of increasing expenditures on particular budget items.

For example, Alice Rivlin notes that while in general politicians hoping for a lengthy career must not propose tax increases, voters have positive feelings about a number of specific government programs – it’s just “government,” in the abstract, they don’t like. This leads her to find that:

There is one apparent exception to the tax rule: taxes held in trust funds and earmarked for specific purposes can be raised. There was no perceptible backlash when the gasoline tax was raised in 1983, presumably because the increase was thought necessary to fix the roads. While no one would claim payroll taxes are popular, voters have tolerated repeated increases in the taxes that fund Social Security, including the substantial increases in contributions required to shift the Social Security system from a pay-as-you-go mode to the

accumulation of surpluses designed to prefund the retirement claims of the baby-boom generation (Rivlin, 1989, p. 113).

In a similar vein Le Grand and Bennett (2000) propose that an earmarked tax, in their case a percentage point increase in the personal income tax, would provide the necessary additional funding for Britain's cash-starved National Health Service, noting that poll results showed eighty percent approval for such a tax increase *if* it were earmarked, but only forty percent approval for a tax increase for the general pool of government revenue.

Note that in each of these cases it is not a matter of voters being "duped" into accepting a tax increase they otherwise would not approve. Rather, voters are willing to accept a tax increase if they have some assurances about where the money will be spent. Wilkinson (1994) adds that earmarking can have the additional benefits of making the government expenditure process more transparent than it would otherwise be, which is good not just for achieving a better match between how voters want their money spent and how it actually is spent, but also for generally improving the democratic ideal.

But if earmarked taxes have these strengths, why do we not observe earmarking for *all* government programs? First, there is a trade-off; as we noted earlier, the drawback of earmarked taxes is in some ways the same as their strength, that it binds government to a degree in terms of how they can spend money. While we might want this for some programs, it is not likely to be the case that it would be an efficient system for the entire government budget. Second, we also note that if too many programs become based on earmarked funding, the government budget as a whole might become larger than voters actually want; Kimenyi, Lee and Tollison (1990) point out that with extensive use of earmarking, lobbyists for different sectors will be turning their energies to trying to secure tax increases, rather than, as is usually the case, fighting for a share of a total budget fixed in size. Third, earmarking is only effective where it is easy for voters to observe the true size of the relevant budget expenditure. This might be the case for a highway trust fund, or the Social Security fund, but might be more difficult in other cases. Indeed for this reason Rode and Rushton (2002) rejected the idea of an earmarked tax for new revenues for the Canadian health care system; it would not be feasible for voters to ensure that the new revenues were in fact being devoted to health care, and that hidden cuts in health care expenditures were not being made elsewhere in the system. Finally, earmarking across all

expenditure items would require some way of translating diverse citizen preferences over government expenditures into a coherent plan. This might be possible over a single expenditure item, but as scholars of voting systems have long known, when there are a number of issues to be determined simultaneously there are likely to be serious inconsistencies in the social choice, even when individual voters are themselves rational and consistent in how they vote.

Given all these considerations, what can we say, in general terms, about an earmarked tax for the arts? First, for any of the usual tax bases, earmarked taxes for the arts will not be like a user fee for a public service, and so should not be confused as such.²⁴ Second, it will be an important consideration how well the public can actually monitor whether the tax was devoted to the arts and whether cuts were not made elsewhere. This may be easier for the arts, which has a limited number of branches of government making expenditures in the area, than in other fields like health or welfare. Third, the fact that the arts are only a small part of the total budget of any level of government means that an earmarked tax could be applied without binding the government's entire budget in a way that could be damaging should an unforeseen shock to the budget occur. Hsiung (2001) points out (using the analogy of the design of submarines) that earmarking can work to prevent budget problems in one area, which may be due to unforeseen events or perhaps just to poor expenditure management, from spreading to every other budgetary item.

Any advocate for an earmarked tax for the arts in Metro Atlanta will need to be familiar with the strengths and weaknesses of earmarked taxes. The current situation in Georgia is such that residents are very aware of how quickly the budgetary fortunes of the state can change, with required cuts to valuable public services and the unforeseen need to raise taxes. An earmarked tax promises to insulate some part of the budget process from fluctuations, and some reason must be provided as to why this is a good idea. If voters have a reluctance to adopt an earmarked tax for the arts in these uncertain times, that is an indication that there are drawbacks to earmarking from the start that need to be addressed. It will not be sufficient to simply say that earmarking "protects" the arts, since the government

²⁴ Bös (2000) makes the technical point that if the earmarked tax is chosen by a referendum, then for the median voter, whose preference we would expect to be the electoral outcome, the tax is like a user fee, since that voter is choosing a level of tax equal to the marginal benefits he will receive from the resulting spending, which is the same as what he would choose had there been a market and user fee for the good.

budget as a whole cannot be protected in like fashion, and queries will immediately be raised as to what entitles the arts to this special treatment in the budget process.

That being said, we note that the main experience Georgians have had with earmarking, the dedication of lottery revenues to education, has been a positive one that maintains substantial positive support. In general, a potential problem with earmarking is that if the program being funded has a number of sources of revenues, the earmarked funds might simply serve to provide a *substitute* source of revenue rather than provide *additional* revenues; in other words, other funding might be cut as a result of the introduction of the earmarked source. But research has found that the Georgia lotteries have indeed provided additional, rather than substitute, funding for education; this has been attributed to the transparent reporting mechanism on the use of funds (Lauth and Robbins, 2002). State law insists that the net proceeds of the lottery “shall be used to supplement, not supplant, existing resources for educational purposes and programs.” To make this enforceable the Georgia Constitution requires that the Governor list a separate budget category, “lottery proceeds,” so that citizens can more easily observe the pattern of education funding that is not from the lottery.

To our knowledge there are no studies that have attempted to estimate whether earmarked taxes for the arts in a city or metropolitan area cause decreases in other sources of public funding, and an econometric analysis of the question is beyond the scope of this study. Many states this year are proposing substantial cuts to their state-level arts boards, including Colorado and Utah, states where the major metropolitan area has an earmarked sales tax for the arts, but this is surely at least in part to the general fiscal crisis facing state governments.

5. Earmarked Taxes for the Arts: Questions for Metro Atlanta

What public interest is served by an earmarked tax for the arts?

This is the most important question of all. If there is no coherent answer, then any advocates of an earmarked tax will be left explaining why they would want to support a transfer of money from taxpayers in general to those who happen to enjoy attending those cultural events that would be eligible for funding.

It will not be enough to claim that the range of organizations receiving funding will be large and attract diverse audiences, because it leaves unanswered the question of why funding through the private sector, plus what public funding already exists, would not be wholly adequate. Furthermore, when the public interest *is* identified it will not only justify the new funding mechanism but will also indicate what sort of allocation process is appropriate.

Economists who study the arts have identified a number of reasons why public support of the arts, beyond what the private sector alone could provide, is justified:

- Left to the private sector alone, the opportunities to share in the cultural life of the region will not be distributed equitably, and individuals with low income, or who have not had the benefits of a family upbringing or schooling that enable them to fully partake in our cultural life, or who live in neighborhoods with few cultural offerings, will be missing out on a crucial part of a full life.
- There are benefits from the arts in the community that accrue through the building of *social capital*: the invisible, informal ties that bind our society together. By enhancing the opportunities for different citizens to get together, especially in amateur cultural organizations where the citizens are actually participating in the activity, not just as spectators, we build the social capital that is now seen by many as an important determinant of the quality of life in a region (Putnam, 2000; Strom, 2001). The Urban Institute reports that “frequent participants in arts and culture are more likely than less frequent participants to engage in other civic activities, such as voting and being a member of a voluntary organization or association – that is, to act as ‘community connectors’” (Walker, 2002, p. 7).
- There are in the arts what economists refer to as *positive externalities*, where I will benefit from others taking part in cultural activities even when I myself am not a part of those activities in particular. For example, I benefit from children having a vibrant arts education program in schools, and the opportunity to experience a wide range of cultural offerings in the Metro area, because it will improve my quality of life to live in a society that is culturally literate and that will give support in future to the cultural institutions I value. I will also benefit from a culturally vibrant city attracting new residents that will add to the cultural and economic life of the region.

Each of these reasons has two things in common.

First, they each identify a *public interest* in the arts, even for those who are not regular attendees of events, whether it be in terms of helping those who are for various reasons culturally deprived, or of building community, or through changing the cultural life of the area in ways that benefit everyone. As stated above, it would be very difficult to persuade the voting public to support new funding for the arts if the public benefits are not articulated.

Second, each of these reasons has in common an understanding that our cultural traditions, and the fostering of new creations and ideas, are not simply an entertaining diversion, although being entertained is certainly a part of our cultural life. Our culture is at the core of how we define and understand our selves and each other. It is how we express or experience a vision for which words alone would never be adequate. It is how we are connected to our ancestors who came before us and the generations who will come after. The arts are different from other goods.

The residents of Metro Atlanta will differ regarding what is the most important public interest in the arts. Some may believe that it is most important to stress the cultural development of youth, especially for the disadvantaged and the at-risk. Arts education programs, artists-in-schools, and after-school programs will be a funding priority. Others will see the most gain in the development of community, especially through the sustainable funding of small arts nonprofit organizations. Still others might believe that directing attention to the pursuit of artistic excellence is the best way to maintain our traditions and inspire future generations. No doubt for many people all of these goals will be important, but there will be differences in where new public funding could do the most good.

A coherent proposal for an earmarked tax will include an identification of the public interest in the arts in Atlanta, and from that the criteria for how funds would be allocated should naturally follow.²⁵

²⁵ The classic critique of an arts council without a clear sense of purpose is King and Blaug (1976); see Schuster (2001) for a revisiting of that paper, and reiteration that the question of public purpose can still confound arts policy-makers.

What are the implications of Metro Atlanta's geography?

As we saw in the Kansas City case, and in Detroit, concerns will inevitably be raised about what taxpayers will contribute to the earmarked tax and *where* the funds will be spent. Metro Atlanta's transportation challenges are, we believe, obvious enough to be taken as a given. Residents distant from central Atlanta will raise questions as to whether they will be paying a tax to fund arts organizations in the city from which they expect to receive few benefits. This takes us back to the previous question: what is the public interest in the arts funding?

If the argument is that funding for nonprofit arts organizations is a way to build social capital through greater citizen participation, then it will be important that the funds from the dedicated revenue source be distributed throughout the area covered by the tax, since the essence of social capital is in its being local.

If the public interest is in creating greater equality of opportunity to acquire cultural experiences, then some geographic redistribution would be called for as culturally deprived areas would ideally be the location of more allocations than the amounts collected in taxes there, or, perhaps more allocations would be made to central cultural organizations well-placed to serve the needs of the disadvantaged groups.

If the public interest is in having some "world class" institutions, then likely there will be a geographic redistribution from suburbs and exurbs to the City of Atlanta (however, a recent report on the arts and suburbs in Minnesota suggested that "suburban arts development cannot be limited to classes and amateur performances, no matter how worthwhile. Minneapolis and St. Paul may – and perhaps *should* not – forever be the repositories for all art of a certain type or quality" (Bye, 2002)).

What are the implications of Metro Atlanta's cultural diversity?

Economists have found that when there are wide differences in public preferences over what goods and services should be funded through government, there will tend to be less provision of those public goods. That is not a very surprising result. But more disturbing, economists have also found that the greater the degree of ethnic diversity in a jurisdiction, the less provision we will have a public goods and services. Citizens are less willing

to agree on collective action when there are ethnic divisions. This has been found to hamper economic development in poor countries (Easterly, 2002), but has also been found to apply to the US, where the more ethnically diverse counties will tend to spend less on core public infrastructure (Alesina, Baqir and Easterly, 1999), welfare (Luttmer, 2001), and schools (Poterba, 1997).

Of the twenty cities in the Kushner and Brooks (2000) *Research Atlanta* study, Atlanta had the highest share of minority population. If the racial differences are accompanied by differences in thinking about what kinds of cultural programs warrant funding, it may be very difficult to reach consensus on a new funding program in the arts.

Cultural diversity comes in many forms, and works across the different tastes people have for the different genres of art. In a forthcoming paper Rushton (2003) shows that as cultural tastes become more varied, and as there is less consensus on the particular cultural value of the high arts versus popular art, the case for public funding becomes more difficult to make.

When economists first began studying the rationale for public funding of the arts, in the 1960s and 1970s, there was an implicit assumption about what was meant by “the arts”: it was a very particular artistic heritage, the high art tradition of Western Europe. But that assumption can no longer be made.

This does not mean that it will be impossible to secure agreement on a new source of sustainable funding for the arts in Metro Atlanta. But it does mean that there is a challenge that needs to be addressed. Other cities with cultural diversity have been able to create very successful arts funding systems. But, as Kushner and Brooks (2000) note, a “frank discussion about the interplay between race, the arts, and philanthropy in Atlanta would probably be useful. The confluence of a high minority population and a high degree of (largely white) suburbanization may be depressing support for any cultural establishment in the city that focuses on the ‘classical arts’” (p. 28).

How should funds be allocated?

Should the allocation process be competitive? We can predict how existing arts institutions might approach this question. They will see a cost in the administrative work of preparing documents annually for a funding competition, and a potential cost, but also a potential gain in the results of

the funding. The possible costs here are that if the new earmarked tax comes into play and the organization does poorly in the competition, it might actually *lose* revenues as private donations fall off and, perhaps, other sources of government funding go into decline. However, from a public interest perspective there is much to be said for competition, even for large organizations. It forces arts organizations to document how it is that they are serving a public interest (see Gilhespy (2001) and Schuster (1997) for a look at how indicators of success at achieving public interest goals can be applied to arts organizations), it provides citizens with a greater sense of accountability to the public, and, often overlooked, it gives new arts organizations a chance to gain a foothold. Anheier and Toepler (1998) note that one half of American art museums have been founded since 1970; this is not a static sector, and it is worthwhile to ask whether the funding allocation process should reflect this.

What arts organizations should be eligible for funding? Once again we are asked to consider the purpose of public funding to guide us in answering a question. The St. Louis ZMD is a model that focuses on very secure funding for a few large organizations, and it seems to have a clear idea of what will be accomplished through that: world class institutions available for free admission, and many educational programs, for its citizens. Denver, after initially proposing such a model, funds a very large number of organizations, and ensures grants to community arts organizations in the suburban counties. Once the purpose of the public funding is determined, the answer to this question should be clearer.

Should the allocations extend beyond the arts? It has been noted in informal discussions with administrators of earmarked taxes that it is generally easier to secure new funding for the arts if there is some way of including the local zoo in the process. It is not difficult to see why; the demographic of middle- and low-income families with young children will often find the zoo is the most accessible cultural institution for the family to enjoy. If the purpose of the earmarked tax is to ensure broad equality of access to cultural institutions, this might be justified. Also, if institutions like the zoo are an important contributor to social capital, in terms of bringing people together in a relaxed, enjoyable atmosphere such that stronger ties are felt for the community, there could be a justification there as well. But we are reminded one last time to ask what is the purpose of *public* funding for the institution; indeed we might find that culture should be given a broad definition.

Who Should Make the Allocation Decision?

There are three distinct methods of allocating funds, which might be used in some combination.

One method is to specify the allocation of funds to specified cultural organizations at the outset, so that while a commission may exist to oversee the transfer of funds, the commission is not engaged in any decision-making over the allocation. An example would be the ZMD in St. Louis.

A second method is to grant the new funds from the earmarked tax to an existing arts council or group of councils, to supplement its existing programs, which are generally conducted on a competitive basis. An example in this case is the Greater Columbus (Ohio) Arts Council, which receives a portion of the local occupancy tax and allocates funds on a competitive basis.

The third method is to allocate funds through some body that exists only for the purpose of allocating the earmarked revenues, for example the Scientific and Cultural Facilities District in Denver. Such a body might allocate its funds entirely on a competitive basis, or, as is the case in Denver, through a variety of means: statutory allocation to large organizations, a competitive process for medium-sized organizations, and funding for community-based arts organizations being handled by local government.

Metropolitan Atlanta has a number of arts funding bodies already in place, and so a key question would be, if an earmarked tax were adopted, and some aspect of the allocation of funds were to be competitive, should some new body be created? A new funding body would make sense if the purpose of the funding were different from what is typically the goal of programs by the county arts councils or the Metropolitan Atlanta Arts Fund. For example, the goal of the new funding might be to foster more collaborative projects across organizations, if this were seen as a deficiency under the status quo.

How Much Revenue Could be Raised in Metro Atlanta?

It is always a difficult task to estimate the revenues that could be raised from the application of an earmarked tax. First, the tax base is constantly shifting due to population changes or changes in general economic conditions. The hotel occupancy tax will suffer additional variation depending on the

performance of that sector. Second, changes in the tax rates themselves will cause changes in the tax base. If increases in property tax mill rates are accompanied by reductions in property values, as we would expect they would be, then in the long term the revenues raised by an increase in the mill rate will be less than the number we would reach by applying a hypothetical mill rate increase to the existing tax base.

That being said, the estimation problems are most likely less for the sales tax base than for other tax bases, and on those grounds we can do some rough calculations. The seven-county Metropolitan Denver Scientific and Cultural Facilities District, and Salt Lake County in Utah, each levy an earmarked one-tenth of a sales tax point for the arts and culture. In Denver this tax raises about \$15 per person, and in Salt Lake about \$17 per person. If an earmarked tax could be designed that would raise \$16 per person in Clayton, Cobb, DeKalb, Fulton and Gwinnett counties, with a combined population of just over three million persons, total revenues would be about \$50 million.

Some caveats are in order in the interpretation of the \$50 million figure.

First, it is an approximation. Gwinnett county, for example, has only had its 1% county sales tax in place since 2001 (the total rate in Gwinnett is 6%, with the 4% state rate, 1% to the Board of Education, and 1% to the county). Revenues fluctuate widely, but an estimate over those months is revenues around \$19 per person per year per one-tenth of one percent sales tax. DeKalb county has a total sales tax rate of 7% (since unlike Gwinnett it also has a 1% tax devoted to MARTA), and revenues there for 2002 from the 1% sales tax that goes to the county indicate that one-tenth of one percent sales tax yields about \$12.40 per person. So, although it is an approximation, \$16 per person from one-tenth of one percent of sales tax in the five combined counties is not going to be wildly off the mark.

Second, both Denver and Salt Lake use their earmarked revenues for a wide range of cultural activities: in Denver over 40% of the revenues raised go to the Museum of Science and Nature, the Zoo, and the Botanical Gardens, and in Salt Lake over 40% of the revenues go to the Zoo and the Department of Parks and Recreation. So if Metro Atlanta were looking for an earmarked tax specifically for the arts, one-tenth of one percent of sales tax is actually substantially more revenue per person for the arts than is raised in Denver or Salt Lake.

Third, following from the second point, it is important to remember that sound policy in the arts requires thinking about what programs would best serve the interests of the community, and the degree to which public funding would need to be a part of those programs, before looking into what revenue could be raised from different sources. Only after discussion of the issues raised in previous parts of the paper would it make sense to ask what sort of earmarked tax if any is appropriate, and what the revenue target ought to be.

6. Conclusion

Economists have found that the public seems to have more willingness to accept taxes, especially new taxes, when they are earmarked for a particular purpose. In the arts, we have seen evidence from a number of US cities where earmarked taxes for the arts receive strong voter approval both for their implementation and their renewal.

Whether that same support would be found in Metro Atlanta depends on a number of factors. Cities where proposals for earmarked taxes for the arts have failed to gain approval show us that questions about how funds will be distributed across a region, and what the purpose of the funding is, must be answered before voters will be willing to give their support.

Beyond this, there needs to be an articulation of the public interest in the arts, and in turn what will be the criteria for funded projects. And in particular, defining the public interest in the arts will require some consensus-building across cultural groups. This is a challenge, but it has been done elsewhere, and the different cultural communities of Atlanta could benefit in many ways from a discussion of our common interest in preserving, experiencing, and enhancing our cultural life.

Sources

- Alesina, A., R. Baqir and W. Easterly. 1999. "Public Goods and Ethnic Divisions." *Quarterly Journal of Economics*, Vol. 114, n° 4, p. 1243.
- Anheier, H.K., and S. Toepler. 1998. "Commerce and the Muse: Are Art Museums Becoming Commercial?" in *To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector*, B.A. Weisbrod, ed., Cambridge, UK: Cambridge University Press, p. 233-248.
- Baumol, W.J. 1997. *Public Support for the Arts: Why and Wherefore?* Washington: President's Committee on the Arts and the Humanities.
- Blaug, M. 2001. "Where Are We Now on Cultural Economics?" *Journal of Economic Surveys*, Vol. 15, n° 2, p. 123-143.
- Boadway, R.W., and D.E. Wildasin. 1984. *Public Sector Economics*. Second edition, Boston: Little, Brown.
- Bös, D. 2000. "Earmarked Taxation: Welfare versus Political Support." *Journal of Public Economics*, Vol. 75, p. 439-462.
- Brooks, A.C. 2000. "Is There a Dark Side to Government Support for Nonprofits?" *Public Administration Review*, Vol. 60, n° 3, p. 211-218.
- Browning, E.K. 1978. "The Burden of Taxation." *Journal of Political Economy*, Vol. 86, n° 4, p. 649-671.
- Buchanan, J.M. 1963. "The Economics of Earmarked Taxes." *Journal of Political Economy*, Vol. 71, n° 5, p. 457-469.
- Bye, C. 2002. *A New Angle: Arts Development in the Suburbs*. Minneapolis: The McKnight Foundation.
- Davies, J., F. St-Hilaire and J. Whalley. 1984. "Some Calculations of Lifetime Tax Incidence." *American Economic Review*, Vol. 74, n° 4, p. 633-649.

- Easterly, W. 2002. *The Elusive Quest for Growth*. Cambridge, MA: MIT Press.
- Gilhespy, I. 2001. "The Evaluation of Social Objectives in Cultural Organizations." *International Journal of Arts Management*, Vol. 4, n° 1, p. 48-57.
- Glaeser, E.L., J. Kolko and A. Saiz. 2000. "Consumer City." Harvard Institute of Economic Research, Discussion Paper 1901.
- Grampp, W.D. 1989. "Rent-Seeking in Arts Policy." *Public Choice*, Vol. 60, n° 2, p. 113-121.
- Heilbrun, J., and C.M. Gray. 2001. *The Economics of Art and Culture*. Second edition, Cambridge, UK: Cambridge University Press.
- Hansmann, H. 1980. "The Role of Nonprofit Enterprise." *Yale Law Journal*, Vol. 89, n° 5, p. 835-901.
- Hsiung, B. 2001. "A Note on Earmarked Taxes." *Public Finance Review*, Vol. 29, n° 3, p. 223-232.
- Kimenyi, M.S., D.R. Lee and R.D. Tollison. 1990. "Efficient Lobbying and Earmarked Taxes." *Public Finance Quarterly*, Vol. 18, n° 1, p. 104-113.
- King, K., and M. Blaug. 1976. "Does the Arts Council Know What It Is Doing?" in *The Economics of the Arts*, M. Blaug, ed., Boulder, CO: Westview, p. 101-125.
- Kushner, R.J., and A.C. Brooks. 2000. "The Arts Economy in 20 Cities: Where Does Atlanta Stand?" Atlanta: Research Atlanta.
- Lauth, Thomas P., and Mark D. Robbins. 2002. "The Georgia Lottery and State Appropriations for Education: Substitution or Additional Funding?" *Public Budgeting and Finance*, Vol. 22, n° 3, p. 89-100.
- Le Grand, J., and F. Bennett. 2000. "Should the NHS be funded by a hypothecated tax?" *Fabian Review*, winter, p. 8-9.

- Luttmer, E.F.P. 2001. "Group Loyalty and the Taste for Redistribution." *Journal of Political Economy*, Vol. 109, n° 3, p. 500-528.
- Newbery, D.M., and G. Santos. 1999. "Road Taxes, Road User Charges and Earmarking." *Fiscal Studies*, Vol. 20, n° 2, p. 103-132.
- Peacock, A. 2000. "Public Financing of the Arts in England." *Fiscal Studies*, Vol. 21, n° 2, p. 171-205.
- Pechman, J.A., and B.A. Okner. 1974. *Who Bears the Tax Burden?* Washington: Brookings Institution.
- Pettit, B., and P. DiMaggio. 1998. "Public Sentiments Towards the Arts: A Critical Reanalysis of 13 Opinion Surveys." Princeton University, Center for Arts and Cultural Policy Studies, Working Paper 5.
- Poterba, J. 1997. "Demographic Structure and the Political Economy of Public Education." *Journal of Policy Analysis and Management*, Vol. 16, n° 1, p. 48-66.
- Putnam, R.D. 2000. *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster.
- Rawls, J. 1971. *A Theory of Justice*. Cambridge, MA: Harvard University Press.
- Rivlin, A. 1989. "The Continuing Search for a Popular Tax." *American Economic Review, Papers and Proceedings*, Vol. 79, n° 2, p. 113-117.
- Rode, M., and M. Rushton. 2002. "Options for Raising Revenue for Health Care." Commission on the Future of Health Care in Canada, Discussion Paper 9.
- Rushton, M. 2000. "Public Funding of Controversial Art." *Journal of Cultural Economics*, Vol. 24, n° 4, p. 267-282.
- Rushton, M. 2003. "Cultural Diversity and Public Funding of the Arts: A View from Cultural Economics." *Journal of Arts Management, Law, and Society*. Forthcoming.

- Sandel, M.J. 1996. *Democracy's Discontent: America in Search of a Public Philosophy*. Cambridge, MA: Harvard University Press.
- Schuster, J.M. 1997. "The Performance of Performance Indicators in the Arts." *Nonprofit Management & Leadership*, Vol. 7, n° 3, p. 253-269.
- Schuster, J.M. 2001. "Policy and Planning with a Purpose, or the Art of Making Choices in Arts Funding." Working Paper, Cultural Policy Center, University of Chicago.
- Scitovsky, T. 1972. "What's Wrong With the Arts is What's Wrong With Society." *American Economic Review, Papers and Proceedings*, Vol. 62, n° 2, p. 62-29.
- Strom, E. 2001. "Strengthening Communities Through Culture." Issue Paper. Washington: Center for Arts and Culture.
- Strom, E. 2002. "Converting Pork into Porcelain: Cultural Institutions and Downtown Development." *Urban Affairs Review*, Vol. 38, n° 1, p. 3-21.
- Taylor, C. 1995. "Irreducibly Social Goods," in *Philosophical Arguments*. Cambridge, MA: Harvard University Press.
- Throsby, D. 2001. *Economics and Culture*. Cambridge, UK: Cambridge University Press.
- Walker, C. 2002. "Arts & Culture: Community Connections." Briefing Paper, The Urban Institute.
- Wilkinson, M. 1994. "Paying for Public Spending: Is There a Role for Earmarked Taxes?" *Fiscal Studies*, Vol. 15, n° 4, p. 119-135.
- Wyszomirski, M. 2002. "Arts and Culture," in *The State of Nonprofit America*, L.M. Salamon, ed., Washington: Brookings Institution, p. 187-218.

RESEARCH ATLANTA, INC.

Research Atlanta, Inc. is an independent, non-partisan, non-profit organization that studies problems affecting metropolitan Atlanta. The goals of the organization are:

- To develop and present reliable information about community issues to Atlanta area leaders in a manner that encourages informed policy planning and implementation.
- To present information on community issues to the general public so that it can better understand and participate in decisions affecting the community.

Research has been conducted in such areas as public education, taxation, government structure, private philanthropy, housing, delivery of government services, and transportation.

THE ANDREW YOUNG SCHOOL OF POLICY STUDIES

The Andrew Young School of Policy Studies was established at Georgia State University in 1996 in an effort to train tomorrow's leaders in the public, non-profit, and private sectors, as well as provide practical research and solutions to many of the important policy problems facing local, state, and national governments.

©September 2003 Research Atlanta, Inc.

Research Atlanta, Inc.

Board of Directors

Andrew Feiler

President

Paul B. Kelman

Vice President - Project Selection

Margaret M. Joslin

Vice President - Communications

John Ahmann

Vice President - Board Development

Lisa Borders

*Vice President - Community
Outreach*

David J. Paterson

Vice President-Finance

The Honorable Kathy B. Ashe

Robert Preston Brown

Matthew T. Echols

Ayesha Khanna

Bill Otott

Trey Paris

Helen Preston Tapp

Pam Sugarman

Mark Tullis

STAFF

Deborah O. McCarty

Executive Director

Jennifer Kreidler

Associate Director

Board of Advisors

Jack S. Schroder, Jr.
Co-Chair

John F. Allgood
J. Veronica Biggins
Cecil D. Conlee
Bradley Currey, Jr.
Ann Q. Curry
Ann W. Cramer
Larry L. Gellerstedt, III

E. Kendrick Smith
Co-Chair

William L. Gibbs
Milton H. Jones, Jr.
Ingrid Saunders Jones
D. Raymond Riddle
Horace H. Sibley
Lyndon A. Wade
Sam A. Williams

**Funding for Research Atlanta, Inc.
is provided mainly by contributions
from businesses, foundations and individuals.**

Donations are tax-deductible.

For additional information
about Research Atlanta, Inc.
or to obtain a copy of any report, contact:

***Research Atlanta, Inc.
Andrew Young School of Policy Studies
Georgia State University
University Plaza***

Atlanta, Georgia 30303

Phone: 404-651-1385

FAX: 404-651-1906

Internet: www.researchatlanta.org
