

ARTS FUNDING INTO THE 21ST CENTURY

BY DIAN MAGIE



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An essay prepared for Creative America, a report by the President's Committee on the Arts and the Humanities describing the system of support for cultural life in the United States today

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Funding for the arts in America, over the next decade and into the 21st Century, will mirror the economic realities brought about by Congressional action in the 1990's -- devolution, mergers, diversification, and privatization. Future sustainable and adequate arts funding on a local, regional and state-wide basis will require a diverse revenue base. Many new creative funding strategies will transfer from one part of the country to another with slight tweaking, while others will not. Therefore it is incumbent on the field to be current on all possible revenue streams developed to support the arts, to evaluate the potential success of duplication, and to leverage support by providing information to decision-makers on successful models.

To analyze the most effective ways to increase or maintain a level revenue stream, the process should begin with a standard fundraising practice - a scan of the environment. In the last two years, Congressional devolution has shifted economic decision-making from a centralized federal focus to local and state block grants, and with efforts in some areas, including the arts and humanities, to shift away from public support to private. This shift requires arts and humanities programs to identify new avenues of local public sector funding, private sector funding, and organizational restructuring to maintain sustainability.

In the public sector, devolution of many federally funded programs increases decision-making at the level of city, county and state, and can actually expand the partnerships and funding opportunities for the arts with housing, labor, tourism and transportation. New local and state strategies for a secure public funding base for the arts are being developed. Foundations are evaluating requests more stringently, rewarding only organizations that eliminate deficits and

adopt sound strategic planning and management to achieve artistic growth and community focus. New avenues of private support must be sought through an entrepreneurial approach and mutually beneficial partnerships with private enterprise. Restructuring and rethinking management and operations through mergers, collaborations and partnerships will reposition cultural organizations to maximize existing resources.

The following paper looks with a critical eye at some current methods that support cultural programs on a local and state level. There is no method that is sure to work in all communities - the country and its resources are too diverse. Public funding mechanisms are more widely used in the western half of the country, which, until recently, lacked the private family foundations and Fortune 500 company headquarters found in the East. But established eastern institutions are also seeking new revenue streams as the income from family foundations and endowments cannot keep pace with inflation, deteriorating infrastructure and federal mandates such as the requirements of the Americans with Disabilities Act (ADA).

1. PUBLIC SECTOR - GENERAL FUND APPROPRIATIONS

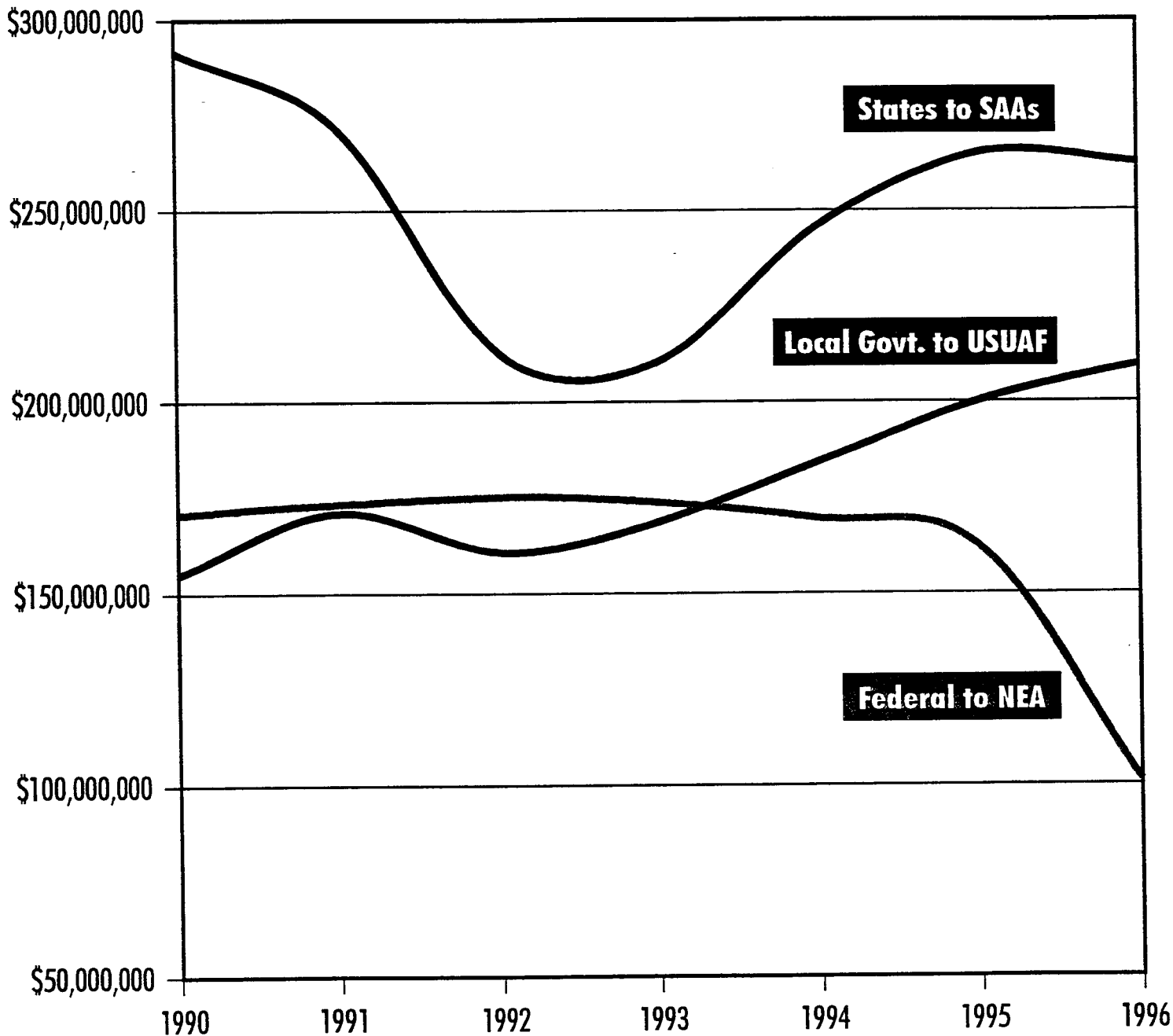
While decreasing state and federal arts and humanities funding has been the focus of most articles and publications, public support for cultural programs has dramatically increased at the city and county level. City and county funding for the arts is more difficult to track because of the number of sources involved. *The Arts in America 1992: A Report to the President and to the Congress* reported 3,822 community-based local arts agencies. Many of these are small volunteer organizations, but at least 1,000 have staffing according to Americans for the Arts [(formerly the National Assembly of Local Arts Agencies (NALAA)]. The budgets of the members of United States Urban Arts Association (USUAF), local arts agencies in the 50 largest U.S. cities, are tracked and analyzed annually by Americans for the Arts.

Local **public funding** of USUAF communities increased by 181.7% from 1990 to 1995. This compares with a -9.1% change in state appropriations and -5.2% change in the National Endowment for the Arts appropriation. In FY 1996, the National Endowment for the Arts (NEA) experienced a -38.7% decrease, state appropriations a -0.9% change and local public support for USUAF communities a +11.7% change.

The June, 1996 "Report on Arts Councils in the 50 Largest U.S. Cities" prepared by Randy Cohen of Americans for the Arts provided the following chart comparing funding trends:

Government Support for the Arts: 1990-1996

Federal, State, Local (50 Largest U.S. Cities)



Federal to NEA	\$171,255,000	\$174,081,000	\$175,955,000	\$174,459,000	\$170,228,000	\$162,311,000	\$99,494,000
States to SAAs	\$292,100,000	\$272,500,000	\$231,400,000	\$211,000,000	\$246,200,000	\$265,600,000	\$263,100,000
Local Govt. to USUAF	\$155,617,795	\$171,767,148	\$161,363,140	\$169,291,082	\$184,927,265	\$200,744,889	\$210,179,899

The 1994 Survey of Local Arts Agencies reports that most of the 3,800 local arts agencies receive public funding, with the public sector of the total budget increasing with the size of the community. This adds significantly to the total local public dollars funding the arts represented by USUAF. Further, 61% of all local arts agencies grant funds to arts organizations and artists; over 44% of the budget of local arts agencies (LAAs) in cities with a population over 500,000 is regranted to artists and arts organizations.

The most common public funding mechanism for the arts on the state, county or city level has been the **general fund**, recognizing cultural programs as an important line item in the budget. Some cities add an inflation factor each year for line item departments. Mayor Sam Katherine Campana of Scottsdale, Arizona, reports that, facing reduced revenues in 1993, the only city programs maintaining the built-in 3% inflation factor increase were the police and cultural programs. Strong advocacy networking must be on-going for political support of general fund allocations to cultural programs when crime, education and health and human service issues demand a larger share of the budget. Revenue from the general fund should not be abandoned in trade for a new tax revenue without careful consideration.

Cities and counties are also providing direct support through **line item appropriations** to arts organizations such as museums and symphonies for operations. It is estimated that in 1995, \$650 million was provided from local public sector for the arts.

Cultural organizations should nurture and build on the strong grassroots support at the local level. This follows the standard fundraising practice of first retaining and maintaining existing support before searching for new sources. More emphasis should be placed on grassroots support in state and federal advocacy for the arts and humanities.

2. PUBLIC SECTOR, ALTERNATIVE FUNDING SOURCES

There is much more flexibility to adopt new public funding streams for the arts at the local level (city, county, region) than the state level. In many cases states provide the enabling legislation for local communities to enact funding streams such as tax districts, hotel/motel taxes, and sales taxes.

Special tax districts allow the dedication a portion of a local tax to cultural programs (science and history museums, and botanical gardens in addition to the arts, are usually included in cultural programs benefiting from this tax). This mechanism can provide the greatest potential source of stable local public funding for cultural programs.

Denver's Scientific and Cultural Facilities District (SCFD) provided over \$23 million in 1995 to more than 200 cultural organizations in a six county area through a one-tenth of one cent **sales tax**. An on-going economic impact study demonstrated these SCFD dollars were responsible for a bottom line economic impact in a one year period in excess of \$460 million --

a fact not lost on voters, who extended the tax for ten years in 1994, six years after the measure was first passed.

In St. Louis voters have increased the special district tax levy from 5 cents per \$100 assessed **property** valuation to 22 cents per \$100. First approved in 1969, this levy now provides over \$35 million annually to support five cultural institutions.

State enabling legislation has allowed counties to establish cultural districts as a separate district with their own taxing ability. Although created as "cultural districts," the revenue often supports more than cultural programs. The benefit to the cultural community can be diluted when political realities require splitting the revenue pie with other needs of the community or with property tax relief, but this diverse support can also be the driving force behind passage.

In 1989, the Montgomery County (Dayton, Ohio) Commission approved an increase of one-half of one cent **sales tax** increase for the Montgomery County Regional Arts and Cultural District. Cultural programs received a dedicated annual set-aside from this sales tax of \$1 million to provide operating support to 13 major arts and cultural organizations and grants to small and medium cultural organizations and artists. Other beneficiaries are affordable housing (\$1 million a year) and economic development (\$5 million a year), while the remaining dollars go into the general fund. Capital construction of arts facilities have also received support through the economic development set-aside of this tax revenue.

The Allegheny County Commission in 1995, under authority of 1993 State of Pennsylvania legislation, created the Allegheny Regional Asset District, and passed a one cent **sales tax**. Half the proceeds of this tax goes to local property tax relief and the other half, \$53 million (1995), is distributed as follows: 3% for cultural arts organizations (\$1.59 million); 32% library services; 30% park operation; 19% Three Rivers Stadium maintenance; and 15% maintenance for the Pittsburgh zoo and aviary, Carnegie Museums and Phipps Conservatory.

Local option taxes include the most commonly used method to fund cultural programs over the last 15 years -- **hotel-motel taxes**. Forty-two states have a "local option accommodation tax" enabling cities and counties to collect taxes on hotel-motel occupancy (known as bed tax) and in some cases also taxing meals, and alcoholic beverages (BBB -- bed, board and booze). Tax on alcoholic beverages, sometimes referred to as a "sin tax," is less difficult to pass than "board" which taxes even McDonalds. Because this source of revenue is so large, it is an attractive funding source for any program that can claim relation to tourism, and even some that cannot. Bed taxes have historically supported visitor center operations and cultural programs, but communities are now tapping this source for sports stadiums, convention centers, and general fund.

The successful passage of new or increased bed taxes will be strongly resisted by the hospitality industry as detrimental to attracting large conventions. As with any measure that requires voter approval, combining community interests provides the best chance of passage of a bed tax or BBB initiative. Just as with the proceeds of the local sales tax initiative, cultural

programs may be pitted against other community needs and relegated to a small portion of the revenue. If the language of the initiative does not *dedicate* a percentage of the revenue to cultural programs, the bed tax becomes a part of the general fund and can be siphoned off or reduced when other more pressing needs of the community arise. Dedication of revenue is seldom popular with elected officials or city/county staff because it reduces the budget flexibility to respond to economic changes. Once dedicated, it relies on continued or increasing tourism.

In 1994 San Diego increased bed-tax support for the arts with a dedicated one-cent of the **transient occupancy tax** to the San Diego Arts Commission for a budgeted \$5.6 million in 1995. The Arts Commission allocates 90% in grants to local arts organizations as organizational support; 1% to a public art fund; 2% to neighborhood arts programs; and 7% for administration.

Dade County, Florida, established a **2% bed tax** by local referendum and county ordinance in 1978. By ordinance, 20% of the annual proceeds are dedicated to the Dade County Cultural Affairs Council, 60% to the convention and visitors' bureau, and 20% to Orange Bowl renovations. In 1995, \$1.5 million will be provided in revenue to the arts. The county has recently committed an additional 3% bed tax to plan, develop and construct a performing arts center in downtown Miami (\$140 million in bond proceeds).

The **2% BBB tax** in Flagstaff, Arizona, approved by voters in 1988, produced revenues of \$2,979,481 in FY 94-95 divided into four areas: 48% for tourism; 32% for beautification; 16.5% for economic development; and 3.5% to the general fund. The arts and sciences received \$293,850 in FY 94-95 from all four categories. Since the city council must still allocate these funds annually, the interests represented by the areas are often embroiled in considerable political in-fighting. The BBB tax was extended by voters in 1995 for 15 years with funding changed to: 33% to recreation; 30% to tourism; 9.5% for economic development; 20% for beautification; and 7.5% to the arts and sciences.

The trend across the country is to recognize cultural institutions and programs as a "cultural tourism" component, and the hotel tax paid by tourists is a logical source of revenue to expand programs. The three examples cited have increased the bed taxes to further support cultural programs. Communities must be aware that the tax can become so high as to become counter-productive to attracting tourism. Cultural organizations in New York City and the New York City Arts Commission partnered with the New York City Convention Bureau to reduce a 21% bed tax that many felt significantly thwarted tourism, a primary audience for New York City museums, theaters, and other cultural program.

Communities have become very creative in identifying sources for local option taxes. A scan of the local economy is needed to define the method most appropriate for a specific community. The demand for new revenue sources to meet community needs, in all sectors, will limit the tax revenue mechanisms available to the arts and humanities. Therefore, it is important to evaluate the potential revenue from the potpourri of local option taxes before launching a campaign.

Local elected officials will distinguish between a fee or surcharge and a tax. The main difference is that taxes need voter approval, while in many areas, a fee and surcharge do not. In 1988 the Tucson City Council passed a \$1 per room per night **surcharge** (in addition to the 2% bed tax) to support facilities and programs in the Tucson Arts District, creating an additional \$1.7 million a year. Tucson later added a \$1 **fee** per golf game on municipal courses, producing over \$400,000 a year for youth programs, some of which were in the arts. Because the revenue from the surcharge was not *dedicated* for the purpose stated, other needs of the community have diminished the revenue for the cultural community.

More and more localities are adopting the **entertainment sales tax** as a source of revenue to support cultural programs. In 1993 Broward County, Florida (Ft. Lauderdale) adopted a local 0.5% **entertainment sales tax** dedicated to the local arts agency. This measure taxes admission to movies, sporting events, theaters, concerts and cultural events and is also collected on music and electronics store sales of tapes, compact disks and computer wares, and rental of "tangible personal property" including video rentals. Revenues in FY 1994-95 from this tax include \$520,000 from admissions tax, \$1.25 million from music sales tax and \$550,000 from the rental tax.

Amusement (entertainment) taxes on theaters, movies, concerts and sports events are fueling a 1996 Arizona Arts Endowment Fund predicted to raise \$20 million in ten years. Rather than a new tax, advocates convinced the state legislature to commit any revenue over the 1993-94 revenue level (\$27.6 million), up to \$2 million a year, for ten years to the Endowment. The Arizona Commission on the Arts will administer the endowment with a goal of matching the \$20 million from the private sector.

The cultural community is important in recruiting new corporations to locate or relocate. Corporations are required to file annual reports accompanied by a **corporate filing fee** in almost every state. A revenue source for the arts and humanities generated at the state level, a modest filing fee increase of \$15, dedicated to the cultural community, can generate significant funds.

The Florida Cultural Trust receives \$10 from each \$35 annual corporate filing fee, raising \$6.8 million annually to support 55 major cultural institutions. Arizona passed legislation in 1989, a year after Florida, increasing the corporate filing fee to \$45 annually, with the additional \$15 raising \$1 million annually. The representatives of large corporations, who are also often board members of cultural institutions and exert major political sway, can be called upon to advocate this small fee. The caution is that state legislators may remove the state arts commission from the general fund if the income proves significant as in the case of Florida.

A portion of **cable company franchise fees** has provided \$225,000 annually to the Arts Council of New Orleans since the early 1980s for grants to local arts organizations. The Los Angeles County Music and Performing Arts Commission received \$300,000 in 1995 from the county cable franchise fee for programming local performing arts into the historic John Anson Ford Amphitheater.

Arts and humanities organizations need to work with local officials in negotiations for franchise agreements to ensure benefit to the community and the cultural sector. Section 653(c) of the Telecommunications Act of 1996 includes a provision permitting franchise authorities to impose a fee in lieu of franchise fees, and the "Barton-Stupak" amendment protects the ability of franchise authorities to manage and reap the benefits of their rights of way. As utilities, cable and computer companies jockey for fiber optics delivery systems, an important provision is included in Section 652, adding language to guarantee local authorities the ability to manage their public rights-of-way and receive fair and reasonable compensation for the use of public rights-of-way by *all* telecommunications providers. Negotiations between city/county governments and fiber optics providers are underway in most large cities. In-kind support for the arts, in access to fiber optics as one of the city's negotiated lines, may prove as important as dollars.

The City of Tucson collects \$1.6 million annually from a cable franchise fee of 5% of the cable companies gross receipts. The 1986 Tucson franchise agreement provided a channel for the arts programmed by the Tucson-Pima Arts Council. A transfer of the **cable franchise agreement** to a new cable company in 1991 provided \$187,000 in five annual cycles as "local origination" grants to independent producers in the community. The ten year franchise agreement ended in December, 1996. As of June 1, 1997, the present cable company, TCI, and the city have not reached agreement on the terms of a new franchise and what - if any - future benefit the arts might receive.

The Aspen (Colorado) City Council passed a 0.5% **real estate transfer tax** in 1979 supporting the historic Wheeler Opera House and the visual and performing arts. A \$100,000 cap was placed on the amount allocated to arts organizations with the remaining funds (between \$400,000 and 700,000 in 1995) supporting the opera house.

The proceeds from **lotteries** and **gambling** are staggering and new games appear daily. This source of arts and humanities funding might appropriately be labelled "a crap shoot." The ups and downs of the Massachusetts Cultural Council funding through lottery proceeds over the last 15 years demonstrate many of the disadvantages -- the Council's support fell from a high in 1988 of \$5 million from the lottery and \$22 million state general fund allocation to a low in 1992 of \$3.56 million from lottery funding only. Yet the FY 1996 \$14 million lottery-funded allocation (although lottery generated, the legislature must still appropriate) is one of the top five state arts budgets in the nation. There are other, more stable revenue mechanisms, but each state or community must evaluate its options for the optimum funding in amount and stability.

The 37 states that authorize lotteries are distributing approximately \$9.3 billion. In most cases lottery receipts go to state departments of education, or transportation, or the state's general fund. It is unknown if lotteries will continue to generate the same level of revenue as gambling in all forms spreads from reservation to river boat, and multi-state mega-lotteries eat into the revenue of state generated games.

The arts and historic preservation in small communities appear to benefit most, to date, from lotteries and gambling. In Arizona lottery funds are distributed by formula, based on

population, for transportation. Accompanying state enabling legislation allows local communities to allocate up to 10% of their annual lottery allocation for "quality of life" programs. In the past ten years this was the first allocation of public funds for cultural programs for some smaller communities, and almost all have increased their support for the arts through other means.

In 1988 the South Dakota Legislature enacted a law permitting **gambling** in the city of Deadwood. This measure produced \$6.5 million in 1995, principally for historic restoration, with a portion providing operation of several museums and other facilities, including staff and operations for the Historic Deadwood Arts Council. Establishing gaming rules and regulations on the use and administration of the gaming tax is a complicated process mired in potential problems.

The **vanity license plate** program provides visibility but not a significant income source. The cultural community should evaluate whether advocacy for such a program might hinder other mechanisms that will produce significantly higher revenue. The population size and growth of the state are another factor determining whether this program will be a success.

In California 14,000 special **license plates** were sold in the first two years raising almost \$200,000 for arts education. The plates sell for \$30 of which \$25, along with almost all of the \$15 renewal fee, goes to the California Arts Council. To produce \$1.5 million a year for state wide arts education, more than 100,000 California drivers will need to renew arts license plates.

The income from Florida "State of the Arts" **license plates** remains in the county where drivers purchase the plates, providing \$20 from each plate to the county arts agency. The Pineallas County Arts Council receives over \$30,000 in annual revenue from the sale of approximately 130 plates a month.

For states with a personal income tax, the **income tax checkoff** has become a popular way since 1977 for raising money for special interests - and in many states too popular. Some states offer eight or more checkoff choices and report a decline in income from checkoffs. Checkoff revenue for *all* projects in the 40 states fell from \$30.1 million in 1990 to \$27.8 in 1992.

The Alabama Council on Arts and Humanities receives between \$25,000 and \$30,000 a year from an **income tax checkoff** in place since 1980. Oregon's program was dropped when the tax checkoff program failed to generate at least \$50,000 in two consecutive years. Since the program is voluntary, unfriendly legislators can claim that low returns demonstrate a lack of interest in the arts by citizens, and therefore that the arts are unworthy of public support.

The Missouri Cultural Tax, a **nonresident income tax** on out-of-state athletes and performers, is providing between \$2 million and \$5 million annually. In 1993 the Missouri legislature passed a law creating a public arts endowment, the Missouri Cultural Trust, designed to support the operations and programs of the Missouri Arts Council. In 1994 the legislature allocated 50% of nonresident income tax revenues to the Missouri Cultural Trust. Since the goal of the Trust is \$200 million in ten years to make the state arts commission independent of state

and federal appropriations, the tax is designed as seed money to attract private and corporate contributions.

3. PUBLIC FUNDING - ENDOWMENTS

Cultural organizations are familiar with **endowment campaigns** to provide a stable, dependable source of income. The principal remains intact and only the interest is available. Following efforts by Congress in 1995 to eliminate federal funding for the arts, humanities, museums and public broadcasting, the development of an endowed fund is attractive even on a national basis and has prompted some calls for an alternative to the annual battles over appropriations for the Endowments. A few state and local arts and humanities commissions have embarked on building endowments from a combination of public and private funding. This effort has positive long term implications but possibly some painful short-term impacts.

The public portion of the Missouri endowment is the income tax on nonresident sports and entertainment figures; in Arizona an entertainment tax provides a portion of the targeted amount. Both the Arizona and Missouri endowments rely heavily on contributions from the private and corporate sector to reach their goal of self-sufficiency for the state arts agency to continue their programs. The state agencies will compete with arts and humanities organizations for private and corporate funding. In Arizona, where corporate support has been minimal, it is hoped that corporate support will increase overall.

State arts and humanities agencies support is necessary for rural and inner city initiatives reaching underserved audiences that have no access to corporate dollars or adequate local public dollars. The continuation of state support assures access to arts and humanities programs for all citizens of the state rather than for those in the urban centers.

It would be naive to believe, as state arts and humanities councils enter the struggle for private and corporate dollars, that past levels of support will continue for all cultural organizations in the state. Major institutions are most likely to experience a sea change in support from all sources of funding in the years ahead. The limit of one application to the National Endowment for the Arts, begun in fiscal year 96, and an emerging shift in foundation support and increased competition for private and corporate dollars will buffet large arts and humanities institutions over the next five years.

Endowments require the support of major stakeholders and influential board members. Therefore, at the local level endowments may potentially favor a few major institutions as automatic beneficiaries. The Silicon Valley Arts Fund, established in 1992 and managed by the Community Foundation of Santa Clara County, raised \$12 million by 1995 from the private sector with 15% earmarked for paying off existing deficits and 75% set aside for the endowments of ten large arts organizations. The final 10% goes to a venture fund to support new activities through one year interest free loans.

Since local communities will feel the impact of the crises in their major institutions, it may become attractive to develop local endowments for the arts and humanities by using a public support mechanism. The dedication of a portion of a new county sales tax or bed tax over five years into an endowment might provide more stability than annual allocations of the same tax. As a public-private campaign, it is more likely that annual allocations would include grassroots cultural organizations as well as major institutions.

4. PUBLIC FUNDING INFRASTRUCTURE - LINE ITEM, BONDS, PERCENT FOR ART

Most of the previous examples of public funding benefit programs and operations of the arts and humanities. New construction or the renovation of cultural facilities requires a large capital outlay that was once the object of private philanthropy. A few **family foundations**, especially in the East, are still actively involved in funding cultural facilities. The Heinz Foundations has provided millions for facilities in Pittsburgh, including the Heinz Symphony Hall and the new historical museum. Public funding sources are derived from a **line item** in the budget or **bond issues** approved by voters in state, county or city elections, or often a combination.

Because of the volatile transition in support for cultural programs, caution should be taken in constructing new cultural facilities unless there is a sound plan in place for operations. Urban planners and elected officials (some perhaps with an "edifice complex") focus on the structure and how it enhances the fabric of the community. It is up to the cultural organizations responsible for the day to day operating expenses to make reasonable revenue projections and insist this be factored into decisions on facility design and initial funding.

State designated cultural facilities, such as the North Carolina School for the Arts, Aslo Theatre in Florida, the Alabama Shakespeare Theater and the many state historical museums are built or renovated through a line item in the state general fund budget or through voter approved bond issues. Bond issues are prohibited by law in some states and restricted in some others.

A voter-approved New Jersey **state bond issue**, passed in 1987, provided \$100 million with \$40 million for regional cultural centers; \$25 million for historic preservation; and \$35 million for open space projects. The packaging for these three interests together resulted in passage by 2 to 1.

The \$90 million Rock and Roll Hall of Fame and Museum was built with \$40 million of **variable/fixed-rate revenue bonds** issued by the Cleveland-Cuyahoga Port Authority, \$25 million in **urban renewal increment bonds** through the City of Cleveland, and \$25 million in Cuyahoga County **general obligation bonds**. Debt service on the bonds of \$3.6 million a year will be derived from a 1.5% county bed tax, a 3% surcharge on museum admissions, and \$1.5 million in corporate sponsorships.

The **line item state funding** for a local cultural facility is often referred to as "pork-barrel" politics or "bringing home the bacon." Obtaining line item funding, which may provide millions in annual funding and may require matching funds, is the result of skillful political maneuvering by a local delegation or a single elected official. Without adequate planning for operations, and a viable organizational structure for management, these victories can create divisions and new facilities can be a strain on the local cultural community. Yet in many communities with a limited tax base and private/corporate support, line item state funding may be the best, if not the only way, to develop a major cultural facility.

Harrisburg, Pennsylvania received a line-item allocation in 1994 of \$18 million from the state legislature, to be matched locally, for a cultural center including theaters, a science museum and an Imax theater. The local planning committee, in addition to matching state funds, has established an endowment for facility operations.

City and county bond issues are regularly placed on ballots for voter approval. Voters in Phoenix, Arizona in 1988 approved a \$175 million cultural bond issue for new facilities designed by renowned architects -- the Science Center was designed by Antoine Predock, the Art Museum by Tod Williams and Billie Tsien, the History Museum by Langdon Wilson Architecture and Will Bruder designed the new Central Library. The vote was carefully researched and orchestrated by the cultural community. Based on the turn-out for previous bond elections, the number of votes needed for passage was printed consecutively on buttons worn by supporters who had signed to vote for the measure.

Percent for art programs are providing commissions to visual artists not equaled in number and amount since the WPA programs of the 1930s. These programs have grown from only a few public art programs in 1966 to more than 135 state and locally funded programs in 1988. By 1995 some type of **percent for art** program, either mandatory or voluntary, has been adopted in all but five states. In 1973 King County (Seattle, Washington) became the first county government in the U.S. to adopt a percent for art program, administered by the King County Arts Commission. By 1995 more than 35 of the 50 USUAF local arts agencies administer a percent for art program. The measure specifies that a given percentage (usually 1%) of capital construction costs for new or renovated public buildings be set aside for artwork. One percent of capital construction budgets for the cities, counties and states is by definition multi-millions of dollars for the arts.

Public art commissions are likely to increase in number and amount in the future with attention to an inclusive public process. Economic development interests see unique design elements, representative of the community, as critical to the revitalization of urban areas. Large scale public art works have become a tourist destination as well as the signature for many cities. The St. Louis arch is rivaled by "Sky Stations" by R.M. Fischer in Kansas City, Missouri. Artists are designing everything from street furniture to waste treatment plants. Artists working with landfills and waste treatment plants change can help alter a NIMBY ("not in my back yard") attitude. As reported in an article on art and infrastructure in *Governing* magazine (April, 1996), "Across the county, dozens of communities are striving to blend aesthetic values and amenities

into ordinary infrastructure projects. ... These aesthetic dimensions are not just frills; they're serious strategies for cities trying to boost public acceptance of contentious projects, ease the effects of chaotic growth or simply bring home a bigger bang for the buck."

Negative public reaction to a work of public art has threatened to undermine all arts funding in a few well-known instances. This can often be traced to lack of public input into the project. The saga of the Richard Serra's "Tilted Arch" public art, from its commissioning in 1979 for New York's Federal Plaza, to relocation in 1989, demonstrates the hostility that can arise toward public art. The community rejection of the neon public art for the civic center in Tacoma became known as "the neon wars." The furor over the "Squaw Peak Pots" in Phoenix even made the *National Enquirer* and for a while threatened to gut all city funding to the arts.

5. PUBLIC FUNDING THROUGH TRANSPORTATION AND ISTEA

In the last half of the 20th Century, **federal, state and local transportation departments** have funded some of the most exciting public art projects. "Arts on the Line," began in 1978 to integrate public art into the subway system, was funded by the U.S. Department of Transportation through the Massachusetts Bay Transportation Authority and administered by the Cambridge Arts Council. Nearly twenty years later public art is a feature of, and integrated into, the design of transit centers for trains, subways and buses. The importance of this movement goes beyond the hundreds of commissions to artists, as it makes a statement that the arts are an important component in a world class city.

Airport construction is providing millions for public art integrated into the design (lighting, railing, sound) of airport facilities, including on-site museums with full-time curators, as city leaders seek to make a statement to the traveler entering through this gateway to the city. "A Walk on the Beach," the floor design for Concourse A of the Miami International Airport, is the product of a 1995 Metro-Dade Art in Public Places program administered by the Metro-Dade Arts Commission. The Goldwater Terminal of Phoenix Sky Harbor includes a museum, curator and over \$1 million in public art. The Public Art Collection of the Albuquerque International Sunport resulted from a **line item in the revenue bonds** issued to remodel the airport; the proceeds included \$400,000 for work of 90 New Mexico artists representing the multicultural community. The one area of the new Denver International Airport that has received accolades is its public art.

Public art as a part of **freeway construction and street widening** is still in its infancy but is growing quickly through the leadership of creative transportation directors. Seattle and Phoenix are the only two cities with a part of the construction budget dedicated to art, but other cities are using "**mitigation**" or "**enhancement**" funds to alter drab concrete canyons for drivers and minimize the intrusion into neighborhoods. The cost of highway construction is so astronomical that an effective advocacy tool is to equate the cost of public art beautifying the highway to one inch or one foot of highway.

Local city and county transportation directors have significant latitude to include public art in highway design and construction without a percent for art. When land is taken for widening roads, the property owner is compensated for loss of value to his property, called "mitigation." **Mitigation funds** can also be used to include public art features and landscape design proven to increase the same property value.

State and local transportation planners are again being challenged to think creatively through the U.S. Department of Transportation's Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. In Tennessee, Mississippi, South Dakota and Washington **ISTEA grants** have funded folk arts/tourism programs linking small communities along a transportation corridor and highlighting folk arts and cultural traditions in publications and audio tapes for the car. Public art has been incorporated into bike paths, pedestrian walkways, and bus stops to encourage commuters to take alternative transportation modes also funded by ISTEA. Even if Congress votes not to continue funding this program, ISTEA projects incorporating the arts are now popular models throughout the country and are likely to continue and expand through various other transportation funding sources.

6. PUBLIC SECTOR - DEVOLUTION AND SOCIAL SERVICE PARTNERSHIPS

The League of Cities, Conference of Mayors and the Governor's Conference have all protested "unfunded federal mandates." Action by Congress to reduce the deficit and limit federal funding to programs are often coupled with "devolution," the movement to transfer decision-making previously held in Washington to states, counties and cities. Local governments will now have to decide how to provide continuing support for community needs with reduced federal funding. The human burden of federal budget reductions will fall on states and local communities.

This is not altogether bad news for the many arts and humanities organizations that have established programs with federally-funded state and local partners to solve community problems. These partnerships, regardless of the funding source, have been forged at the local level in response to local needs. Without federal guidelines that often restricted these collaborative projects and partnerships, there will be an opportunity to expand programs identified as national models. There are many successful models of partnerships between social service programs and arts and humanities programs across the country. The decision for eliminating, maintaining, or increasing these programs will be a local decision in part dependent on the strength of the partnerships.

This paper does not speak to the debate that funding for the arts should not be tied to social service programs, and that to do so demeans the integrity and quality of the arts. It does address realistic funding options for arts programs in the next decade. Social service agencies have funding and local decision-making to contract with organizations that offer solutions to local problems. Programs in the arts have demonstrated that they can provide solutions to many of these problems. Public arts programs do expand economic opportunities for artists and arts

organizations, and the willingness of arts organizations to join community efforts certainly alters the image of the arts as elitist.

Funding for arts programs that meet the social service needs of a community has come from a multitude of sources, and these sources will continue in some form because local communities must continue to wrestle with these problems. Some of the funding opportunities: **Community Development Block Grants** (decided on a local basis); **summer youth employment funding** (if JTPA/SYEP is eliminated, new funding will be identified by states, cities, counties rather than return working youth to the streets); **juvenile crime prevention funding** (through governors' offices, state youth services and corrections, county attorneys, RICO, public safety, juvenile justice, courts); **public housing renovation, construction, and employment funds** (through the state, city and/or county community services or public housing programs), **drug elimination funding** (through state and local justice departments, and local decisions on federal funding from HHS, Justice, and HUD).

Numerous examples of successful arts and humanities programs funded by sources listed above are detailed in publications of the Americans for the Arts (formerly known as the National Assembly of Local Arts Agencies) and its Institute for Community Development and the Arts, including *Building America's Communities: a Compendium of Arts and Community Development Programs* (1996 and 1997); *Untapped Public Funding for the Arts* (1995); NALAA Monographs on specific topics, the 1996 publication of the President's Committee on the Arts and the Humanities, *Coming Up Taller: Arts and Humanities Programs for Children and Youth at Risk*, and a joint publication of the NEA and the Center for Substance Abuse Prevention, *Art Works! Prevention Programs for Youth and Communities* (1997).

7. ECONOMIC DEVELOPMENT AND FOR-PROFIT PARTNERSHIPS

"Entrepreneurial" and "non-profit" have not been considered synonymous, yet increased **earned income** can replace lost public funding. Strategies for increasing income must go beyond bake sales and t-shirt sales to participation in urban revitalization.

Funding for cultural facility construction and renovation, operations and programming is increasingly included in urban renewal plans. Whenever the emphasis is on facility development, it is critical that there be equal planning for operating expenses. To build larger houses in face of national trends of reduced attendance requires detailed and supported audience development programs to avoid bankrupting the occupant arts organization.

The **Arts Development Fee** of the Los Angeles Municipal Code, passed in 1985, assesses private developments up to one percent of their building permit valuation for an arts amenity or service on or near the development site. The Community Redevelopment Agency (CRA), formed in 1964 to integrate art into the urban Los Angeles environment, instituted this program. In addition to works of public art, the CRA worked with developers of California Plaza to meet their arts obligation by underwriting the construction cost of the Museum of Contemporary Art

(MOCA) designed by architect Arata Isozaki. Leases for office space in the Los Angeles Bunker Hill development include 45 cents per square foot (approximately \$800,000 a year) for performances in adjacent performance spaces.

As "**anchor tenants for private developments**," the arts attract upscale corporate offices and commercial retailers for major urban private development. The redevelopment of the 165,000 square foot King Plow Factory into the King Plow Arts Center in Atlanta recognized that the commercial arts are valuable tenants and attract other tenants to a development anchored by the arts. Nexus Contemporary Arts Center helped attract the following symbiotic arts businesses: a floral sculptor, architectural firms, a modeling agency, graphic design firms, a film production company, advertising agencies, multi-media designers, commercial art galleries and fashion photographers. There are 45 live/work and commercial studios, a special events space and 200 seat theatre providing income from both non-profit and for profit business. The "Arts Mean Business" is more than an empty slogan.

The Pittsburgh Cultural Trust illustrates the **arts as developer**. By developing new and expanded performance facilities, the arts have served as a catalyst for downtown animation and new business development in 14 blocks of downtown Pittsburgh. In the first decade of The Cultural District development, according to research by the Pennsylvania Economy League, \$33 million in public investment, combined with \$63 million in private and philanthropic funds triggered \$115 million in commercial investment. Taxes generated by this activity, both real estate and performance-related, increased from \$7.9 million in 1986 to \$19.1 million in 1994, and are projected to exceed \$28 million by the year 2000.

The **arts incubators, artist live/work space and artist work space** have proven to be a major factor in urban revitalization developed with **public and private funding** from a variety of sources. These efforts combine facility development with shared and reduced operating expenses, often pivotally placed to initiate urban renewal and revitalization.

Arts incubators, part of the larger universe of business incubators, offer office space to arts organizations at low, subsidized rates, and provide shared office equipment and operations. The Entergy Arts Business Center, operated by the Arts Council of New Orleans, provides affordable space to six arts organization and three arts service businesses, and was developed with a \$15,000 Louisiana Office of **Economic Development grant** to develop an incubator plan, a three-year **corporate grant** of \$150,000 from the Entergy Corporation, a mid-South utility; a \$150,000 City of New Orleans' **Economic Development Trust Fund operating grant**; and a City of New Orleans **Community Development Block Grant**.

San Jose provided a **city-owned building and \$40,000 in renovation and equipment** for the 18,000 square foot San Jose Arts Incubation Office housing nine arts organizations.

In downtown Dayton, Ohio, the **sales tax supported Montgomery County Regional Arts and Cultural District** and provided **economic development capital improvement funding** to convert an older downtown Dayton Ohio department store into a five story arts incubator/mixed

use facility operated by Culture Works, The Arts and Culture Alliance of the Miami Valley. Designed to house for-profit retail on the first floor to defray operating expenses, the facility houses dance rehearsal space and office space for several dance organizations on one floor, and a black box theater and office space for small theater companies on another. Next door is the 1,200 seat 1866 Victoria Theatre, reopened in 1990 after \$15 million in privately funded renovations.

Artist live/work space and artist workspace provide significant urban revitalization through the renovation of vacant and historic buildings that generate new retail development. Four examples profiled in the AFA monograph, "Live/Work Space: Housing for Artists in Your Community," involved a mix of financing structures that included **affordable housing tax credits, a city-held mortgage, a gap loan from a historical preservation commission, and city lease buy-back, owner-held financing, sweat equity, and commercial bank loans.**

Arts facilities and programs are part of **adaptive reuse plans for decommissioned military bases** in several communities. The General Services Administration and the military branch work with local communities to mitigate the impact of base closure. An early example of success in this area is the conversion of the Torpedo Factory Arts Center in Alexandria, Virginia 21 years ago into a major tourist draw and three floor marketplace of 84 working artist studios, an art school, and six galleries funded by the City of Alexandria as a redevelopment project.

Burlington, Vermont is planning the Lake Champlain Science Center as an ecological museum on Lake Champlain property vacated by the U.S. Navy. As well as a science center, the new museum will be devoted to a complete exploration of the Lake Champlain Basin, including its history, culture and arts.

The Cultural Council of Santa Cruz is working collaboratively with the Santa Cruz City Redevelopment, the San Lorenzo Valley Cultural Committee, Ft. Ord Reuse Authority and local artists to increase the supply of affordable studio space at the closed Ft. Ord Military Base.

Community development corporations began in the 1960s to rebuild inner city economic, physical, social, human, and cultural infrastructures of low-income urban and rural communities. Today community development corporations are forming collaborations with artists and community-based arts organizations to promote the concept of the **arts as a development resource.**

The Manchester Craftsmen's Guild in Pittsburgh is a community development corporation centered on the arts that has grown in twenty years to become a successful entrepreneurial model. One of the current income-producing projects of Director Bill Strickland is the production of compact disks for commercial distribution. Jazz performances held in the Guild's acoustically perfect theatre are recorded on state-of-the-art recording equipment, with production, distribution and marketing in-house. At-risk youth and the unemployed in the surrounding low income community benefit through job training in these commercial arts areas.

Creative financing, effective marketing, and greater collaborations with local businesses, reflect the entrepreneurial funding approach that all arts organizations can emulate to provide sustainability. Cultural organizations become partners in successful economic development to revitalize communities.

8. CORPORATE SUPPORT OF THE ARTS AND HUMANITIES

Two 1996 studies report a decrease in corporate support for the Arts and Culture in 1995. *Giving by Industry: A Reference Guide to New Corporate Philanthropy* by Craig Smith, President of Corporate Citizen, a nonprofit Seattle research group and *Corporate Contributions in 1995* by Audris Tillman, research analyst for the Conference Board, report an overall increase in corporate philanthropy but a decrease in support for Arts and Culture. Tillman also reports 16% of 1995 corporate donations were not in cash but in-kind. The Conference Board reported contributions to Arts and Culture had dropped from \$265 million in 1991 to \$189 million in 1995. Smith attributes this philanthropic shift to a change in the corporate client pool. Firms that previously relied heavily on the wealthy for investors find the institutional investors (such as pension funds) and small investors a growing part of their clients. The challenge for the arts is expressed in the deduction by Smith that "Rather than sponsor lavish fund-raising events for the arts where the rich sip champagne and mingle, companies want to impress people of more modest means...to demonstrate that they care about social problems." If Smith is accurate in attributing these motives as representative of corporate leaders, it demonstrates that the arts are still perceived as elitist. The contrast between perception and reality is demonstrated by the increase in workplace giving to the arts and voters approval of taxing mechanisms in communities across the country reflecting a populist support for Arts and Culture. Arts and humanities organizations need to partner with corporate representatives in the community to send a message up the corporate ladder that "people of modest means" care about the arts and the humanities.

Cultural organizations must consider a menu of options for corporate support requests that include: **donation of cash; corporate sponsorship and/or collaborations; contributed products; and loaned executives.** While corporate profits rose 13.4 per cent in 1994, more than any year since World War II, the continued trend of mergers and take-overs may reduce the number of potential contributors.

Corporate sponsorships (sometimes referred to as "Brandstanding") provide funding in return for promotion of the corporate product or name to the targeted audience represented by the audience of the cultural organization. The advertising budget is much larger than the corporate contribution budget, and cultural programs offer market exposure to a targeted audience. The EDS Corporation provides the Detroit Symphony Orchestra a full range of technological support including personal computer hardware, software, employee training, network links and data base development in return for market exposure of its products and services in all the orchestra's mailings, at the concert hall, through the board of directors, and whenever the orchestra tours.

There are drawbacks to sponsorships. In 1993, the IRS issued new guidelines for corporate sponsorship to tax-exempt organizations. When the cultural organization acknowledges the sponsorship, the payments are tax-exempt, but if the exempt organization offers a business service in exchange, such as advertising, the payments are taxable unrelated business income. Further interpretation distinguished between permitted "acknowledgements" and prohibited "advertisements." Another potential problem is negative public association with the product. The San Diego Museum of Art ended negotiations with Philip Morris to underwrite a 1996 summer exhibit at the museum after a public outcry by anti-tobacco activists. Dependence on corporate sponsorship can also open the door for censorship when the sponsor wants the company name associated only with a certain image.

Workplace Giving is a United Way fundraising technique adopted by many of the 57 United Arts funds. Workers in larger companies are able to sign-up for payroll deductions through their company to benefit the arts in the community. In 1995 workplace giving rebounded from a slight decline between 1993 (\$11.2 million) and 1994 (\$10.8 million) to an all-time high of \$11.8 million. Workplace giving accounted for \$2.7 million of the \$6.4 million Cincinnati United Arts effort; \$2 million of the \$3.9 million for Charlotte, North Carolina; and \$1.9 million of the \$5 million Louisville, Kentucky Fund for the Arts.

United Arts Funds as a whole reflected an increase in 1995, collectively raising over \$80.3 million following a worrisome decline of 0.1% in overall giving from the two previous years. Tracking the changes in the sources of United Arts Fund revenue reflects earlier observations: corporate foundations were down from 55.8% in 1994 to 49% in 1995, while individual support (including workplace giving) increased from 27.9% in 1994 to 31% in 1995. The remaining source of revenue for 1995 United Arts Funds includes government 7%; private foundations 11%; and special events 2%. The 49% corporate support for United Arts Funds compares with an average of 4.2% in corporate revenue support for the fifty USUAF local arts agencies.

United Arts Funds are an early local arts agency movement of community support for the arts that began in the east more than forty years ago with less than 10% located today in the west. They are predominately the fundraising arm for large local cultural organizations, reporting a nation-wide benefit to 1,000 cultural groups, for an average of less than 20 cultural organizations benefiting from a local campaign. Ethnic and emerging arts organizations seldom benefit, and sometimes organizations that do benefit feel that they can raise more money and break away. Although some United Arts Funds are also USUAF local arts agencies, in other communities both a local arts agency and a United Arts Fund are found. Community cultural programs could benefit from combined support of an active individual and corporate campaign combined with public support garnered by local arts agencies.

9. FOUNDATIONS REFOCUSING CULTURAL SUPPORT

Alberta Arthurs, representing the Rockefeller Foundation, testified before Congress in 1995 that foundations could not replace funding lost from cut-backs to the National Endowment for Arts and National Endowment for the Humanities. Even before the cuts to the NEA and NEH, **foundation support** was not a viable or significant source of support for most cultural organizations. Research by the Foundation Center in 1995, updating an earlier study, reported that the top fifty recipients, representing 1% of the arts grantees, secured 32% of the total funds awarded by foundations. Foundations provide only 4.8% of the revenue for local arts agencies in 1994 and 7% of the revenue of United Arts Funds in 1994.

The 1995 report from the Foundation Center on data from 1,012 foundations reflected an increase in grant awards from foundations overall, but a decrease in funding for Arts and Culture, from \$789.5 million in 1994 to \$758.7 million in 1995. The percentage of foundation grants to Arts and Culture, compared to all foundation support, reflects a continuing decline, from 14.8% in 1993, to 12.8% in 1994, to 12% in 1995. The largest number and dollars in 1995 foundation support went to performing arts (over \$270 million) followed by museums (\$204 million) with humanities receiving slightly over \$35 million. *Giving USA* reported total donations to the arts increased in 1995 by 2.85% over 1994 from all sources -- individuals, bequests, corporations and foundations (foundations making up only 7.3% of all contributions), but when adjusted for inflation, this increase virtually disappears.

Foundations are becoming more stringent in applicant eligibility and less forgiving of budget debt and short falls. Major institutions with significant continuing debt, thinking of annual foundation support as an "entitlement," are dismayed to find foundations withdrawing support. Recent 1996 foundation actions, such as the new guidelines issued by the Pew Charitable Trust in Philadelphia, have served as a wake-up call that business is not as usual and that foundations are carefully using evaluations to restructure their grantmaking programs.

10. RESTRUCTURING AND COLLABORATIONS TO MAXIMIZE EXISTING RESOURCES

Denial by arts and humanities organizations of the sea change in cultural funding by the end of the millennium spells disaster. Melanie Beene, in the Spring, 1996 *Grantmakers in the Arts Newsletter*, suggests current funding trends of "stabilization" should be replaced with adaptability and long-term sustainability, because "the future of stability is death. Nothing in nature is standing still. Desiring stability is bad science...If you want to be "stable," move to another planet. It is not the nature of reality here."

Responding to a "scan of the environment," cultural organizations are leveraging their limited resources by allying themselves through strategic collaborations with other nonprofit cultural or community groups. Arts organizations, which once jealously guarded their mailing

lists, are now acknowledging a crossover among attendees and jointly marketing to increase the audience size for all involved while reducing the cost.

Economies of scale can be achieved by organizations combining various administrative and overhead expenses. Arts incubators are an example of shared and reduced overhead expenses, but other collaborative structures are options. The American Symphony Orchestra and the Concordia Orchestra in New York City share the same executive director, marketing director, address and administrative staff but retain separate boards, financial books and artistic vision. Concordia contracts with the American Symphony for administration, reducing administrative costs by 40% and American Symphony earns additional income. The Saint Louis Symphony Orchestra, in a successful audience development effort, has forged a community partnership with neighborhood African American churches. The National Assembly of Local Arts Agencies and American Council on the Arts recently voted to merge the two organizations, combining membership and maintaining programs of both organizations under a single board and administrative staff.

SUMMARY

This paper provides cultural organizations with information on existing funding strategies. To survive in the next decade (and some organizations will not survive) it will be critical to create a diverse funding base, employ creative entrepreneurship, and develop strategic partnerships and collaborations to discover every possible option for increasing revenue and reducing expenses.

Cultural organizations will have to apply all the professional skills developed over the last thirty years to scan the local or state environment for the most productive public and private mechanisms to sustain arts and humanities programs. All avenues should be considered, for what will not work for one organization in one area of the country may well work for the same type of organization in another area.

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