Do Cultural Tax Districts Buttress Revenue Growth for Budding Arts Organizations?

Evidence from the Scientific and Cultural Facilities District

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Do cultural tax districts crowd out private funding for the arts?

- Considerable research investigating whether government transfers “crowd out” private funding for arts organizations.

- What effect do public funds from regional cultural tax districts have on private and earned revenues?

- Look specifically at the Scientific and Cultural Facilities District (SCFD) in Colorado → largest cultural tax district in the U.S.
Arts funding in America: A struggle to gain a secure footing

- Funding mixture creates a competitive landscape
- However, turbulence of the system can be destabilizing
  - Significant reliance on private funding → level of donations can fluctuate from year to year

![Pie chart](chart.png)

- Earned Income: 44%
- Private: 43%
- Public: 13%

Source: Gioia, 2007
The SCFD: An extraordinary effort to rescue the arts in Colorado

- 1988 → Denver metro voters create one of the first regional cultural tax districts in the U.S.

- Support for the SCFD came at a time when state funding for the arts had collapsed
The SCFD sales tax:
How much is 0.1%?

- The SCFD sales and use tax is one penny for every $10 in purchases (i.e. 0.1%)
- Annual per capita tax contribution is $15.17 per year
- Distributes an average of $40 million per year
- Supports over 300 cultural organizations
- Has distributed over $660 million since its enactment in 1989
SCFD’s three-tiered funding system

- **Tier I:**
  - Includes 5 of the region’s largest organizations
  - Receives 64% of SCFD funds

- **Tier II:**
  - Includes 26 mid-size organizations
  - Receives 22% of funds

- **Tier III:**
  - Includes a diverse array of over 200 organizations
  - Receives 14% of funds
Existing research on the arts finds partial to no crowd-out

- Majority of empirical studies find partial to no crowd-out

- Ambiguity in the research points to the need for more specific regional and institutional assessments
Estimating the SCFD’s impact: A natural experiment approach

- Difference-in-difference-in-differences (DDD) estimation technique

- Estimates the impact of being inside the SCFD by comparing a “treatment group” (i.e. small organizations inside the boundaries of the SCFD) to comparison nonprofit organizations that differ in their location, size, and mission.

- In economics, this is often referred to as a “natural experiment”
Treatment and comparison groups
Unique data set contains information on Colorado nonprofit revenues

- The following data was collected from 2005 Form 990 tax returns:
  - Total revenue
  - Private giving
  - Earned revenues
  - Government grants (less SCFD)

- Data on SCFD awards collected from the SCFD website

- The final sample includes 527 organizations
Statistical results show a positive impact

- My model shows that being a small arts organization in the district increases:
  - Total revenue by $3.66 million
  - Earned revenue by $2.17 million
  - Private giving by $1.6 million
<table>
<thead>
<tr>
<th>Treatment and Control Groups</th>
<th>I: Total Revenue</th>
<th>II: Private Giving</th>
<th>III: Earned Revenue</th>
<th>IV: Government Grants (less SCFD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In district treatment effect</td>
<td>1.100 (1.801)</td>
<td>1.483 (1.610)</td>
<td>-0.254 (0.692)</td>
<td>-0.100 (0.431)</td>
</tr>
<tr>
<td>Small organization effect</td>
<td>-4.218**** (0.954)</td>
<td>-1.410**** (0.504)</td>
<td>-1.952**** (0.545)</td>
<td>-0.850*** (0.389)</td>
</tr>
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<td>In district treatment and small organization interaction effect</td>
<td>-0.761 (1.534)</td>
<td>-1.212 (1.252)</td>
<td>0.320 (0.692)</td>
<td>0.107 (0.443)</td>
</tr>
<tr>
<td>Arts organization effect</td>
<td>1.108 (1.743)</td>
<td>0.241 (0.887)</td>
<td>1.608* (1.245)</td>
<td>-0.767*** (0.330)</td>
</tr>
<tr>
<td>In district and arts organization interaction effect</td>
<td>-3.961*** (1.863)</td>
<td>-1.760* (1.161)</td>
<td>-2.282** (1.208)</td>
<td>-0.018 (0.345)</td>
</tr>
<tr>
<td>Arts and small organization interaction effect</td>
<td>-0.814 (1.727)</td>
<td>-0.103 (0.863)</td>
<td>-1.461 (1.226)</td>
<td>0.775**** (0.328)</td>
</tr>
<tr>
<td><strong>Arts, in district treatment and small organization interaction effect</strong></td>
<td><strong>3.662</strong>* (1.849)**</td>
<td><em><em>1.608</em> (1.138)</em>*</td>
<td><strong>2.170</strong> (1.197)</td>
<td><strong>-0.022</strong> (0.331)</td>
</tr>
<tr>
<td>N</td>
<td>527</td>
<td>527</td>
<td>527</td>
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</tr>
<tr>
<td>Root MSE</td>
<td>3.693</td>
<td>3.136</td>
<td>1.637</td>
<td>0.952</td>
</tr>
</tbody>
</table>
Why might small SCFD-funded organizations crowd in more revenue?

- SCFD organizations benefit from a boost in revenues that allows them to design more quality programming.

- SCFD organizations benefit from a “signaling effect” to the community about the value of their programming and worthiness of support.

- Receipt of SCFD funds incentivizes organizations to create more mainstream or marketable programming that appeals to a broader audience.
Do cultural tax districts buttress revenue growth?

- Results indicate that cultural tax districts may enhance, rather than replace, other sources of revenue.

- High levels of earned revenue are desirable for any budding arts organization → audience building and community support our strong indicators of future success and financial viability.
Policy implications and future research

- Creation of more cultural tax districts may be valuable to the extent that they promote further growth, and consequently visibility, in an organization’s philanthropic base.

- Subjecting additional time periods and comparison groups to the same model would reinforce the results.