



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?



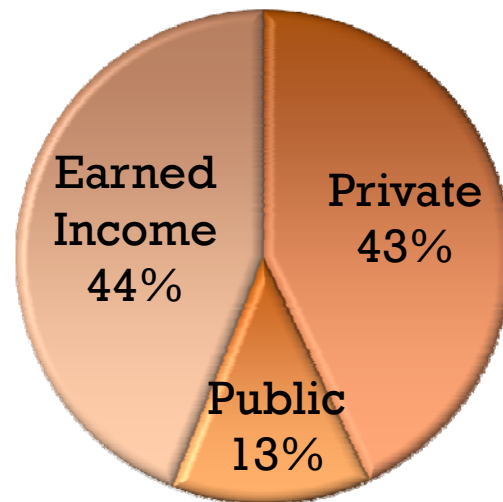
- Considerable research investigating whether government transfers “crowd out” private funding for arts organizations
- What effect do public funds from regional cultural tax districts have on private and earned revenues?
- Look specifically at the Scientific and Cultural Facilities District (SCFD) in 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



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
 - Kingma, 1989; Okten and Weisbrod, 2000; Brooks, 1999, 2000, 2003; Borgonovi, 2006; Smith, 2003; Andreoni and Payne, 2003; Dokko, 2008
- Ambiguity in the research points to the need for more specific regional and institutional assessments

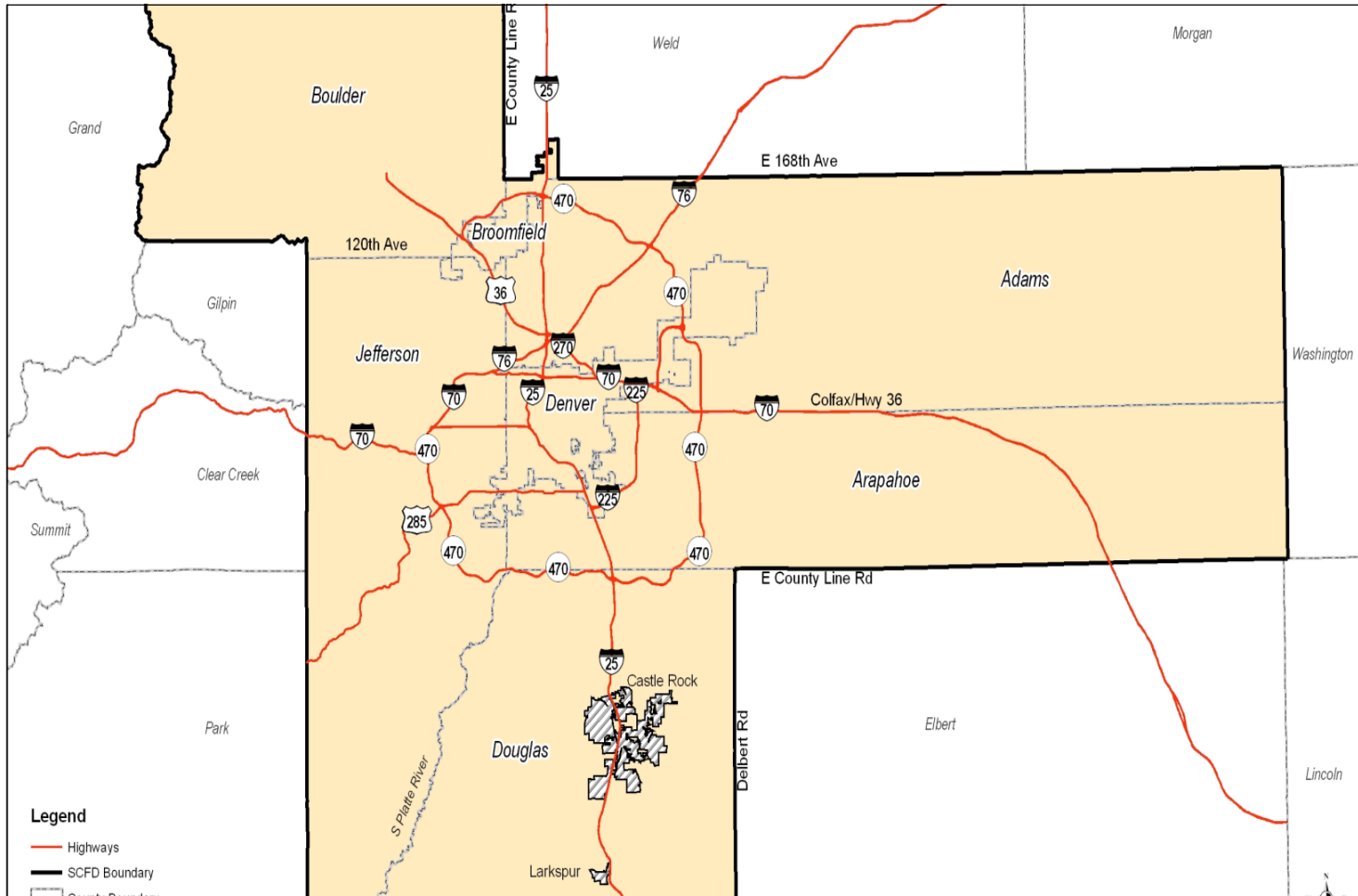


Estimating the SCFD's impact: A natural experiment approach



- 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



	DDD Estimation : Four Models			
	I Total Revenue	II Private Giving	III Earned Revenue	IV Government Grants (less SCFD)
Treatment and Control Groups				
In district treatment effect	1.100 (1.801)	1.483 (1.610)	-0.254 (0.692)	-0.100 (0.431)
Small organization effect	-4.218**** (0.954)	-1.410**** (0.504)	-1.952**** (0.545)	-0.850*** (0.389)
In district treatment and small organization interaction effect	-0.761 (1.534)	-1.212 (1.252)	0.320 (0.692)	0.107 (0.443)
Arts organization effect	1.108 (1.743)	0.241 (0.887)	1.608* (1.245)	-0.767*** (0.330)
In district and arts organization interaction effect	-3.961*** (1.863)	-1.760* (1.161)	-2.282** (1.208)	-0.018 (0.345)
Arts and small organization interaction effect	-0.814 (1.727)	-0.103 (0.863)	-1.461 (1.226)	0.775**** (0.328)
Arts, in district treatment and small organization interaction effect	3.662*** (1.849)	1.608* (1.138)	2.170** (1.197)	-0.022 (0.331)
N	527	527	527	527
Root MSE	3.693	3.136	1.637	0.952



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