Building the Cultural Capital of the South

Securing Resources to Establish the Preeminence of Charlotte-Mecklenburg’s Arts, Science & History Community in the 21st Century

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Designated Revenue Study Committee

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Background

Established in 1958, the Arts & Science Council of Charlotte-Mecklenburg’s (ASC) united arts fund effort became the primary financial driver of the growth of the Charlotte-Mecklenburg cultural community over the next 50 years.

The united fund effort relied primarily on corporate giving until the mid-1970s, when local corporations and businesses began conducting employee campaigns and local governments began appropriating their cultural programming funds to the ASC to distribute to grantees. Local government also designated ASC as its local arts agency at this time and began appropriating funds to ASC to distribute in combination with private funds to cultural organizations. At its high point, in 2007, the ASC campaign raised more than $11.5 million, with over $7.9 million of the total coming from individual gifts through the workplace. Clearly, workplace giving was the driving force in the growth and development of the local cultural sector, and ASC and Charlotte-Mecklenburg emerged as a national model for combining public and private support to fuel arts and cultural investment. This vision of community leaders should be celebrated for what has been achieved in building a cultural community that is the envy of much of the nation.

However, the united arts model achieved sustained success in only a few of the US municipalities where it was adopted. Over time, individual giving to workplace campaigns declined, as donors increasingly sought to direct philanthropic dollars to organizations of their choosing. Further, cultural organizations that relied on the united arts model for support did not build strong internal fund-raising programs or foster deep relationships with individual donors, both of which are critical components of successful philanthropic programs and the hallmark of philanthropic support for arts and culture nationally. The united arts model continues to decline nationally while the role of the local arts agency in cities and counties across the US has seen growth in local government support and/or designated tax revenue sources that support the local cultural sector.

In early 2013, civic, corporate, and community leaders in Charlotte-Mecklenburg saw a need to reconsider the current cultural sector funding model, which was no longer adequate to support a vibrant, inclusive cultural life for all residents. The timing of this work was critical; local arts, science, and history non-profits endured a decade of budget reductions due to flat or declining support from public and private sources. This was exacerbated by the severity of the 2008 financial downturn, which increased the decline in what had been the primary driver of contributed revenue to the sector – workplace giving through the ASC annual campaign.

Still facing the effects of the 2008 recession, ASC along with its public and private supporters launched a study of the sector in 2014 to consider new funding models, guided by three time-sensitive developments:
• The funding model to support existing well-established – as well as emerging – cultural programs and organizations was eroding rapidly, especially in providing unrestricted operating support which was, and continues to be, ASC’s primary granting function.

• Through the 2012 Cultural Vision Plan process, local residents had expressed widespread desire for expanded cultural opportunities – particularly innovative, neighborhood-based and educational programs.

• Like many for-profit businesses, the cultural sector needed to adapt to rapid changes in regional demographics, audience expectations and emerging technologies. Cultural organizations are confronting an immediate need to re-think every facet of their programming, as well as their business models, to help assure long-term sustainability. Their need for unrestricted funding during this time of change becomes increasingly critical.

In the Spring of 2018, ASC convened a Designated Revenue Study Committee based on a key recommendation of the 2014 Cultural Life Task Force— that the community develop and implement a strategy for a reliable, long-term designated public funding source for the cultural sector, drawing on lessons learned from peer cities nationwide.

The all-volunteer Committee was charged with studying the concept, including a review of cities with designated revenue streams already in place, and identifying the best option, or options, for addressing long-term funding challenges facing Charlotte-Mecklenburg’s cultural sector. The Committee’s basic goal was to secure appropriate, stable, and growing public-sector support for the work of ASC and the many cultural organizations whose work it supports and facilitates and ultimately make recommendations in this regard to the ASC Board, to City of Charlotte and Mecklenburg County officials, to other key civic and cultural partners, and to the broader community.

Committee members examined numerous funding issues facing ASC and the entire Charlotte-Mecklenburg arts, science, and history community, along with the evolving challenges that cultural organizations must address as they serve a population that is growing rapidly while at the same time becoming more ethnically and culturally diverse.

The Committee also explored a variety of designated tax-based revenue streams utilized across the US to support arts and culture including property tax, occupancy/hotel tax, admission tax, car rental tax, cigarette and liquor tax, sales tax and income tax.
Commitment to Cultural Equity

In moving to a broader public funding platform for the arts, science and history sector, the societal benefits of work performed by ASC and the Charlotte-Mecklenburg cultural community must be demonstrated in a compelling way. ASC and the cultural community will need to clearly define how cultural and social equity issues will be addressed, reflecting priorities laid out by the Charlotte Mecklenburg Opportunity Task Force. To support a full and vibrant cultural life for all, ASC and its cultural partners must commit to championing policies and practices of cultural equity that empower an inclusive and equitable community. ASC and its cultural partners must engage all communities (geographic, racial, educational and socioeconomic) and support the role of all arts, science, and history providers in achieving cultural equity.

Designated Revenue Recommendation

The Committee determined that pursuing a designated revenue stream from public sources would provide the resources required to propel the Charlotte-Mecklenburg cultural sector to new levels of service to both residents and visitors alike, while also providing the stimulus to expand economic development and opportunity to all sectors of the community. The Committee recommends that:

The residents of Mecklenburg County should be asked to approve a new source of annual funding to support the cultural sector through a designated portion of an existing quarter-cent sales tax throughout Mecklenburg County, as authorized in 2009 by the North Carolina General Assembly, with the cultural sector receiving 1/10th of a penny (40 percent of the annual proceeds from that tax).

The Committee’s analysis indicates that, at the current level of sales tax collections in Mecklenburg County, a 40 percent share of the additional quarter-cent levy would generate an estimated $20 million to support cultural activities in the initial year.

The allocation of funding from the designated revenue stream will require input from all stakeholders including government officials, elected representatives, private sector leadership, cultural sector leadership (volunteer and professional), creative individuals and – most importantly – the community.

The Committee determined that this revenue would replace current annual support to ASC from both its annual private fund-raising efforts as well as the general funds of the City of Charlotte, Mecklenburg County, and the towns of Cornelius, Davidson, Huntersville, Matthews, Mint Hill, and Pineville. It also would counter the loss of income that has occurred via recent shifts in corporate and individual giving models and – as sales tax receipts grow over time – help the cultural sector address the community’s growing and more complex needs.
Imposition of the quarter-cent sales tax would require:

1. A favorable majority vote by the Mecklenburg County Board of Commissioners to seek a public referendum on the tax; and
2. Approval from Mecklenburg County voters, by a simple majority, of that referendum question. Additionally, Mecklenburg County commissioners would have the authority to determine how the benefits of that tax are distributed – not only for the work of the ASC but also for any other purposes deemed appropriate by the commissioners.

Management & Oversight Recommendations

ASC – in its role as the designated local arts agency for Mecklenburg County, the City of Charlotte and Mecklenburg’s six towns – should be responsible for management and distribution of these public funds under the oversight of its Board of Directors.

To assure openness and transparency in its management of revenue obtained from the designated revenue tax, ASC should remain a 501 (c) 3 organization but the proposed changes to its funding and business model require the ASC Board, with input from all stakeholders (government officials, elected representatives, private sector leadership, cultural sector leadership - volunteer and professional, creative individuals and – most importantly – the community), to embark on a planning effort to define its role as a local arts agency for the 21st century, not merely a layering on the old business model.

ASC should receive an administrative fee for the management of this program.

ASC should establish a reserve fund equal to 50 percent of annual receipts from the designated revenue tax to guard against unexpected variances in revenues.

Additionally, if the designated revenue system is approved by the voters, ASC should no longer raise unrestricted annual funds to support its grants programs. This will allow the individual cultural organizations to independently raise private funds and no longer compete with the former ASC effort.

In considering the degree of management and oversight that would be given to ASC over proceeds from any designated revenue stream, it is important to remember that in contrast to some other cities ASC is Charlotte-Mecklenburg’s only umbrella organization for promoting and fostering the cultural community’s health and growth. Other communities have entirely separate organizations --- sometimes actually a municipal government agency, in other places another non-profit – to oversee distributions for certain purposes or to handle economic and opinion research, or other functions.
Anticipated Results

- Increased access and public participation in cultural activities across Charlotte-Mecklenburg strengthens our community.
- Support for both legacy and developing/emerging cultural organizations ensures high quality arts, science and history programming.
- Support and recognition of creative individuals who live and work here ensure a strong foundation of creativity and innovation.
- Cultural development in all towns, communities, and neighborhoods provides a vibrant cultural life for all focused on building community, bridging differences between social and economic groups, innovative and relevant programming for our changing population, and enhancing the role the cultural sector plays in increasing social capital in alignment with the Leading on Opportunity efforts.
- Strengthening Cultural Education for all children and youth through in-school experiences and restoration of out-of-school learning experiences ensures our children have the creativity and critical thinking skills required for the 21st century economy.
- Investing in cultural activity supports jobs and generates government revenues through tourism and increased economic development.

Conclusion

Based on their detailed review and discussions of the options, members of the Designated Revenue Study Committee unanimously recommend that ASC and other parties dedicated to the vibrancy and growth of the Charlotte-Mecklenburg cultural community move expeditiously to secure the additional quarter-cent sales tax already authorized by the North Carolina General Assembly, with 40 percent of its annual proceeds devoted to providing a reliable, long-term dedicated public funding source for the cultural sector via ASC.

Committee members are convinced that creation of this dedicated public revenue stream is essential to sustaining and expanding a strong and diverse array of cultural activities throughout the community that enhance the quality of life for all our residents and encourage new businesses and individuals to make this area their home.
Key Findings

Why the Cultural Sector Seeks Designated Public Funding

During its 60-year history, ASC and its cultural partners have operated under a model that drew financial support from both public and private sources. However, in recent years, changes in both corporate and individual giving practices – and the uncertain nature of year-by-year allocations from local governments – have made that long-standing model unsustainable.

ASC’s traditional business model also involved raising money in a short annual window – largely through corporate campaigns centered among major employers – and distributing a significant percentage of those funds as operating support for a limited number of partners. Today, those short-term corporate campaigns largely have been discontinued by the business community, supplanted by year-round contributions to ASC from both companies and individuals. At the same time, total giving has declined. Also, under the traditional system, cultural partners were not effectively encouraged to build their own capacity for developing contributed revenues.

Historical Funding to ASC From Public & Private Sources

Note: County – Restricted funding includes designated pass-through support for Spirit Square operations. Graphic does not include City’s direct facility operating expense for city-owned facilities or public art appropriations, endowment, or miscellaneous revenues.
Public sector support for ASC – from the City of Charlotte, Mecklenburg County, and the town governments within the county – has grown over time, but also has been uneven and unpredictable. Government support for the arts and culture competes during annual budget cycles with the myriad other priorities of a large and rapidly growing urban community. Consequently, public sector funding has ebbed and flowed at times, and certainly has not seen reliable growth.

As predicted in the 2014 Cultural Life Task Force Report, giving directly to local arts and cultural institutions is occurring; however, these dollars are seldom unrestricted operating support and mostly are project related. The decline in private sector giving has resulted in less unrestricted funding to groups to keep the “doors open and lights on,” and project funding is primarily focused on the large legacy cultural groups – not on mid-size, small and emerging groups who have not developed the infrastructure to raise significant funds on their own.
Direct Giving to Cultural Groups Is Accelerating
Total Giving to Cultural Groups Including ASC in Millions

ASC’s current effort to secure a reliable, growing source of public sector revenue is part of the organization’s larger effort to reinvent and modernize its systems for supporting the cultural community via financial and other means. It is an integral part of efforts to make the Charlotte-Mecklenburg cultural community more vigorous and innovative and be more responsive to the evolving needs of a growing and increasingly diverse community.

Committee Charge & Long-Term Goals

Reflecting the history of local funding models for the cultural sector and the challenges the sector faces today, the Committee’s charge was to:

- Evaluate designated revenue source options for ASC
- Identify a preferred model – including its basic structure, funding eligibility requirements, and type of funding source – that will:
  - Replace the current annual local government funding to ASC (from Mecklenburg County, the City of Charlotte, and the towns of Cornelius, Davidson, Huntersville, Matthews, Mint Hill and Pineville).
  - Restore losses in annual private sector funding as ASC’s united arts fund model has undergone changes in employee campaign giving.
  - Allow for annual growth.
Committee members identified indicators of the success of their work, over the long term, for the local arts and cultural community. Among their key points were:

- The cultural community will devote less time and effort to fundraising and more to investment in innovation and marketing.
- There will be a shared vision of what arts and culture should be among city and county officials, ASC, cultural partners, and other community leaders.
- Cultural offerings will bolster tourism and become critical components of the educational system.
- Organizations will be able to provide access to their offerings in more neighborhoods, at all price points (including some free events) and during more hours/days of the week.
- The funding system will have sufficient flexibility that it can be adapted to evolving circumstances in the years ahead.
- Charlotte will become the “Cultural Capital of the South” – an aspiration expressed in the 1998 Cultural Plan.

Observations from the Cultural Community

Representatives of nine Charlotte-Mecklenburg cultural organizations addressed the Committee, outlining the opportunities and challenges facing the creative community and defining the ways unrestricted funding from ASC – made possible in large part via adequate, dependable, and growing public funding – is critical to both the survival and growth of their work. At the Committee’s request, presentations were made by representatives not only of large, well-known organizations but also of the smaller and mid-size groups that often focus their work in neighborhoods outside the central city.

Key observations from that group included:

- Predictable, long-term funding with sustainable growth is essential to all organizations’ success.
- All financial pillars for local arts and culture currently are eroding – including support from national institutions such as the National Endowment for the Arts and the National Endowment for the Humanities. Individual support is very competitive and Charlotte, unlike many longer-established major cities, lacks a network of large family foundations (e.g., the Lilly family in Indianapolis, or the Mellon Foundation in Pittsburgh).
- Future success depends on building community support. One key is experimenting with new ways to deliver content.
- Baseline funding from ASC helps foster a commitment to artistic excellence that allows Charlotte to attract and retain artistic talent.
- Unrestricted funding keeps cultural resources affordable, and therefore accessible.
- ASC’s unrestricted support strengthens and promotes the organizations’ sustainability. It is difficult to get donors – particularly on the corporate side, where recognition tied to
specific, highly visible cultural offerings is a priority – to support basic costs for employees and facilities.

Committee members heard presentations from representatives of leading cultural umbrella organizations from outside the Charlotte Region, outlining numerous public funding models considered, adopted, and employed by local arts organizations nationwide. Presentations were made by representatives of:

- **Americans for the Arts** (a Washington, DC-based nonprofit organization devoted to advancing the arts in the United States) – The group has found that arts and culture enjoy bipartisan political support, even amidst an otherwise-polarized political environment. Arts and culture also constitute the fastest-growing sector for charitable giving. Nationwide, 60 percent of revenue for nonprofit arts and culture is earned revenue; 30 percent is corporate and private sector giving; 10 percent is from government funding.

- **Denver Scientific & Cultural Facilities District (SCFD) Denver, CO** – A 1/10 cent sales tax supports all disciplines, including more than 300 arts, science, and cultural organizations (but not historical facilities, education or broadcasting). This is a seven-county, regional approach, with some counties having their own government arts agencies. Denver focuses on social impact, with thousands of free events annually; 13.9 million people attend cultural events annually, including 3.9 million students in 2015.

  SCFD is limited to use of 1.5 percent of total tax receipts to cover management and oversight of grants - $840,000 in 2018, which only covers a staff of 6 to manage over 300 grants to organizations totaling over $62 million. SCFD limited in the additional services it can provide but does manage the Scientific & Cultural Collaborative, maintains a database on behalf of the sector, and publishes a Directory. The City of Denver has a separate Office of Arts & Venues, with a budget in excess of $29 million, which also grants funds, manages the City’s public art program, conducts research and data collection, manages SCFD Tier III local grants, funds educational programs/field trips, produces community events and operate Red Rocks Amphitheater, the Convention Center, the Denver Center for the Performing Arts, the McNichols Building, and the Coliseum. The Office of Arts & Venues is not funded by the SCFD except for the grant funds distributed to SCFD Tier III organizations. SCFD leadership reported that the restrictions on funds to manage the tax receipts is no longer adequate and they are exploring other options.

- **Cuyahoga Arts & Culture (CAC) Cleveland, OH** – A dedicated excise tax on cigarettes (30 cents per pack) in Cuyahoga County generates $13-15 million annually. Two referendum campaigns failed when messages were focused on economics, but a shift to emphasize educational benefits (based on extensive opinion research) eventually secured voter approval on the third attempt. However, the choice of an excise tax on cigarettes has proved problematic, as the decline in smoking is steadily depressing revenues.
CAC is not limited by a cap on the per cent of tax revenues that can be spent on management and oversight. However, they strive to stay around 10% of the total revenues for its operations, approximately $1.5 million which cover a staff of nine, all of whom are government employees with same benefits as all public employees in Ohio. CAC is also limited in providing services beyond regranting. A separate organization, funded by CAC and others – Arts Cleveland – provides research, data collection, training and advocacy services. Arts Cleveland’s budget has been between $1.8 – $2.2 million in recent years.

- **San Francisco Department of Cultural Affairs (SFDCA) San Francisco, CA** -- Established in 1932, the Arts Commission received almost $18 million in FY18 from the city’s general fund. The Cultural Equity Endowment Fund, established in 1993, assures that about 200 smaller groups receive shares of the money (almost $4 million in FY18). In the November 2018 election, 74 percent of San Francisco voters approved Proposition E, which will devote 1.5 percent of revenue from the city’s base hotel room tax (8 percent) to arts and cultural programs. An earlier link between that hotel tax and cultural funding was severed in 2013 over concerns that, because the tax had never been put to voters, it could be vulnerable to a legal challenge.

SFDCA is the lead agency within a department of the City of San Francisco that also includes additional grant making and oversight departments with a combined budget in excess of $100 million. SFDCA’s total budget for 2018 is $33.6 million and staff of 40 FTEs, all of whom are government employees with same benefits as all public employees in San Francisco, that manage and oversee grant making, public art, civic design review, policy development and gallery management for public buildings.

Other general observations by the four representatives of arts organizations from outside Charlotte included:

- Unrestricted operating support – along with project funding – is critical to the cultural sector.
- Travelers are looking for cultural authenticity (local/regional specialties).
- For students, involvement in the arts leads to improved academic performance.
- Transparency in the stewardship of public resources is a key to winning support for taxes that support cultural activities. Broad public access and impacts must be demonstrated.

**Other Designated Revenue Options Analyzed by the Committee**

In addition to the quarter-cent sales tax, the committee explored other potential revenue sources that ASC staff had identified as having the greatest potential to meet the cultural sector’s need for financial growth and stability. This included access to a portion of the Mecklenburg County property tax, creation of a new sales tax specifically to support arts and
cultural activities, a property transfer tax, and various excise taxes on products and services. Access to a portion of the quarter-cent sales tax already authorized by the NCGA was identified as, by far, the best vehicle for securing steady, long-term income to support the growth and vitality of the cultural community.