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Municipal Support Case Study: City-Owned Performing Arts Buildings

Peer Market Research for Fayetteville, AR
Prepared by Jon Faris, October 2021

In October 2021, HERE Arts & Culture Consulting was engaged to undertake a market study on local government funding for anchor arts institutions operating in city-owned facilities, with a focus on municipalities that have been identified as peers or aspirational peers to Fayetteville, Arkansas.

The study was conducted via interviews with key staff members from peer organizations, online research from Guidestar.org and Theatre Communications Group's *Fiscal Survey*, a review of online news articles and company websites, and a review of relevant published research.

Summary of Peer Market Research

Overall, from the research completed into Fayetteville's peer markets, peer organizations received a total of 5% to 15% of their total annual operating expenses from their local municipalities.

From the research completed into Fayetteville's peer markets, the following funding strategies came through on a recurring basis:

- **Building Envelope & Major Systems Maintenance:** In instances where the building is owned by the municipality, often the city will provide and pay for maintenance for the building envelope (roofing, walls) and major systems (HVAC, electrical). Additionally, several organizations receive direct, annual financial assistance from their local municipality towards their occupancy costs.
- **Tax-Based Funding:** This was the largest and most substantial source of funding, which was found in almost all markets. The local municipality (city and/or county) diverts a portion of a local tax towards arts and culture organizations. This ranged from \$80,000 - \$600,000 annually and fluctuated based on how much tax was generated in a given year (for example, these funds were reduced significantly during the pandemic).

These tax-based funding streams accounted from anywhere from 2-15% of an organization's annual budget.

- **Unrestricted Grant Funding:** Several organizations received annual unrestricted grant funding directly from the municipality. This amount ranged from \$270,000 to \$350,000 annually, accounting for 10-30% of those organizations' annual budgets.
- **Exterior Grounds Maintenance:** The local municipality may provide exterior maintenance to the landscaping and grounds. These include mowing, snow removal, and exterior lighting. When this arrangement works well, it is beneficial to the arts organization, but sometimes this needs to be supplemented by the theatre's own efforts if the quality and timing of the city services do not meet the theatre's needs (i.e., snow removal timing leading up to a performance).

Full details of the peer market research can be found below.

Determining Peer Markets

The Northwest Arkansas Council works with partners to produce comprehensive reports to provide insight into what's happening in the region and how it's changing. The [State of the Northwest Arkansas Region Report](#), first published in 2011 and commissioned by the Council, compares Northwest Arkansas with peer regions across the U.S. Those peers include outstanding places such as Austin, Texas; Des Moines, Iowa; Durham-Chapel Hill, North Carolina; Madison, Wisconsin; Provo-Orem, Utah; and Raleigh-Cary, North Carolina.

The Council chose those peers because it wanted to compare Northwest Arkansas to the best of the best in such areas as employment growth, educational attainment, personal income and the cost of homeownership. The Council's strong relationship with the University of Arkansas has allowed it to partner with the university to evaluate and track the region's performance in key areas.

Peer Market Highlights

Austin, Texas

[ZACH Theatre](#): ZACH Theatre is a professional theatre company located in Austin, Texas, as well as its associated complex of theatre facilities. ZACH's theatre center is located on publicly owned land at the Butler Shores Park. In 2014, ZACH completed its \$23.5M capital campaign to raise funds for the design and construction of its current facility. Over the past decade, ZACH has seen tremendous growth, with its budget increasing from \$3M to \$8M. Additional details:

- City owns the building, but ZACH has a \$1/year 99-year long-term lease.
- Their new building is on City land, and \$10M local bond issue helped pay for it, with ZACH raising the remainder.
- ZACH also receives maintenance money (written into lease agreement).
- Other city funding is through hotel occupancy tax

Durham-Chapel Hill, North Carolina

[The Carolina Theatre](#): The Carolina Theatre is a performing arts and cinema complex in downtown Durham, North Carolina. The facility is operated by a nonprofit organization named The Carolina Theatre of Durham, Inc. under a management agreement with the City of Durham, which owns the complex. Additional notes:

- Historic building that was in decline; a group got together to save the facility and renovate it. Created a non-profit – “The Carolina Theatre”
- Combination of City grant and hotel tax revenue is more than 15% of annual operating budget. Approximately 11% from direct city grant support, 4% from hotel/motel tax.
- City grant unrestricted funding: 30-35% of total fundraised each year; equals 10-12% of total annual operating budget

Raleigh-Cary, North Carolina

[NC Theatre](#): Tenant of city-owned performing arts center.

- City provides exterior maintenance on the building envelope and major systems.
- Rent-free arrangement
- Also receives \$100,000 annually in local government support

Madison, Wisconsin

[Overture Center for the Arts](#): Overture Center features seven state-of-the-art performance spaces and five galleries where Broadway tours, national and international touring artists, 10 resident companies and hundreds of local artists engage people in nearly 700,000 educational and artistic experiences each year.

- City funds 10% of annual budget, approximately \$2M annually, supposed to be adjusted for inflation
- Has been funded by both general fund and Room Tax fund (hotel/motel occupancy generated)
- \$17M annual budget

Provo, Utah

[Covey Center for the Arts](#): The Covey Center is owned and operated by Provo City. \$8.5M total project, financed by a City \$2.1 million tax increment bond and \$871,377 from the City’s general fund to convert the old library into an arts center. Remainder was raised through community donations, a grant from Utah County and the corporate sponsors of the Mayor's Series.

- Building is completely paid off in terms of its construction costs
- \$350,000 per year from the City, which pays personnel; 32% of annual budget of \$1.1MM. Another \$100k a year from the state government, via a 1/10th of 1% sales tax throughout the state.
- Remainder raised through sponsorships, ticket sales

[SCERA Center for the Arts](#): Located in Orem, Utah (just northwest of Provo), SCERA has served the local community since 1941. Their current facility was renovated in 2006.

- CARE tax (Cultural Arts & Recreation Enrichment) in Orem – mostly spend on cultural. \$1.2M total in CARE tax; Scera gets about \$330,000 per year.

Eureka Springs, AR

Eureka Springs Auditorium:

<https://www.carrollconews.com/story/2858125.html>

The City of Eureka Springs pays the maintenance and utilities for the auditorium and the operating organization pays for its operating budget.

Learnings from Larger Markets

In 2016, the Boston Foundation conducted a study titled [How Boston and Other American Cities Support and Sustain the Arts](#) to understand the financial health of Boston's arts organizations and compare them to organizations in other similarly-sized cities. The study noted that a shared trend in the cities where arts organizations' balance sheets were healthiest:

New York and San Francisco — cities where real estate costs are even higher than in Boston — have lower fixed-asset levels, primarily because some of their major institutions operate in city-owned buildings. As a result, these organizations have lower depreciation expenses, lower long-term maintenance costs, and less need to build facilities reserves for the future. In some cases, local government carries associated operating costs such as utilities. (Koo/Curtis 10)

Additionally, the study found (emphasis added):

Some of the large organizations in New York and San Francisco receive substantial municipal support, which effectively lowers their operating costs. The City of New York owns the Metropolitan Museum of Art's building. **The city also covers the museum's annual utilities costs.** (Koo/Curtis 15)

Continuing, of relevance (emphasis added):

Elements of high costs, high fixed-asset burden and limited safety net are important parts of the context for any [public] intervention. (Koo/Curtis 24)

The study also identified ways that several comparison cities had recently created additional public funding streams to support their local arts ecosystems:

Portland. In 2012, Portland voters passed a \$35 per person income tax for city residents, the Arts Education and Access Fund. The fund was championed by the city mayor and a steering committee of government, foundation, and

business leaders. In 2014, the Fund garnered \$8 million for the arts and arts education.

Cleveland. Ten years ago, a regional coalition campaigned for a cigarette tax to underwrite arts support in Cuyahoga County. The tax raises over \$15 million in arts funding for the region each year. The original campaign was funded by \$1.5 million raised from foundations, arts organizations, and private sources, and was led by the Community Partnership for Arts and Culture (CPAC), an arts service organization funded by The Cleveland Foundation and the George Gund Foundation.

Minnesota. In 2008, arts advocates banded together with sportsmen and environmental activists to run a campaign that ultimately resulted in the passage of the Clean Water, Land and Legacy Amendment, which amended the state constitution to provide a dedicated sales tax to protect clean water, wildlife habitat, arts and culture, and parks and trails. In 2012, the tax generated \$52.6 million for the arts and \$86.5 million for outdoor heritage. (Koo/Curtis 41)

Additionally, in some cases cities were able to increase resources by close coordination of multiple funders. Most applicable in this case is San Francisco:

San Francisco is the site of several initiatives to help organizations to manage astronomical facilities costs. Among these, the [Community Arts Stabilization Trust](#) (CAST) is a partnership bringing together a private foundation, a community loan fund and a city agency.” (Koo/Curtis 42)