

**Building Success:
The Role of the State in the Cultural Facility Development Process**

by
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B.A., Economics
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Submitted to the Department of Urban Studies and Planning
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Abstract

This thesis investigates the question of what is the current role of the state in the cultural facility development process, and, in light of facility-related warnings that have been made over the years, what role should the state take? I study if and how the states have responded to calls for change in the industry and also address the feasibility of a state-level cultural facilities funding program that successfully delivers both financial and technical assistance services to the arts and cultural sector. I use a mixed-method case study approach: a nationwide survey of state arts agencies, program guideline analysis, and interviews, culminating in case studies of selected state-level cultural facilities funding program.

I find that the state currently plays a variety of roles in the cultural facility development process, due to a number of different factors in program design, such as program size and key decision-making entities, that affect a state agency's ability to act in an effective manner. There are two parts to program effectiveness—is it getting done? And, is it getting done well?—that are attributable to adequate funding and good discretionary judgment, respectively. Unfortunately, I find an inverse relationship between these two factors, which makes program effectiveness a challenge. Given this relationship, state agencies are forced to compensate for the sacrifice of one feature for the other, to varying degrees of success.

I recommend that the state agencies ultimately embrace a process in which all discretionary powers are given up in the exchange for robust annual program funding that also includes substantial oversight responsibilities. In this way, programs are able to guarantee their viability and impact through the use of a long term framework for analysis.

Thesis Supervisor: J. Mark Schuster
Title: Professor of Urban Cultural Policy

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Much gratitude to all that I interviewed: Don Blancett, Susan Chin, Adrian Ellis, Kathy Fox, Catherine Gill, Charlie McDermott, Susan Nelson, and Paul Weagraff, who offered me their frank opinions and great insight. Also, though there are too many to mention by name, I am indebted the staff at the SAAs and assorted agencies that dealt with my emails, telephone calls, and seemingly endless requests for information. My deep appreciation to Jay Paget and Rebecca Polan, at the Massachusetts Cultural Facilities Fund for opening up their world to me and showing me how it works.

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Finally, to my family and friends who know me best, you know what a struggle it has been, and how much it means to have you by my side, reminding me that there is life after thesis.

INTRODUCTION

Cultural facilities have always intrigued me. When I worked at the Kennedy Center for the Performing Arts one summer, I became intimately familiar with the fluorescent lighting in the windowless trenches of offices in the core of the building while the stately theaters at either end of the building remained enshrouded to keep the offending light from seeping in. I spent another internship at Pacific Northwest Ballet in Seattle, where I attended the grand unveiling of the renovation plans for the new and improved Marion Oliver McCaw Hall, and then spent the rest of the summer in the box office, mapping season subscribers' seats from their old location in McCaw to their temporary new home at Mercer "Arts" Arena. It is safe to say that I had an unusual perspective on these facilities after seeing their less glamorous aspects.

Yet, I was still attracted to the bureaucratic, behind the scenes work, and after I graduated from college, I proceeded full steam ahead to my desired career in performing arts administration. That is, until the state of the economy stopped me in my tracks. (When I called San Francisco Ballet, the Director of Marketing picked up the phone and said, "Hello, I just fired four of my staff, how can I help you?") Thus, I ended up in the affordable housing industry for three valuable years, which eventually brought me to DUSP and the Center for Real Estate.

At some point this past fall, I remember receiving a job posting for a position at the newly formed Massachusetts Cultural Facilities Fund (CFF). The position was at the Massachusetts Cultural Council, but the job description included "project feasibility analysis" and other real estate type terms that I had spent the last couple years studying. I think that it struck a chord with me because it was such a harmonious intersection of two of my great interests. In fact, I had been searching for a thesis topic in the field of "arts-related development," thinking that perhaps I would use the opening of Boston's new Institute for Contemporary Art (ICA) as a case study to investigate something or other. But with the CFF topic came the opportunity to study the cultural facility development process at a broader scale.

When I originally dove into the topic, I thought that I would emerge at the end of this thesis process a cultural facilities development guru, knowing how to get projects

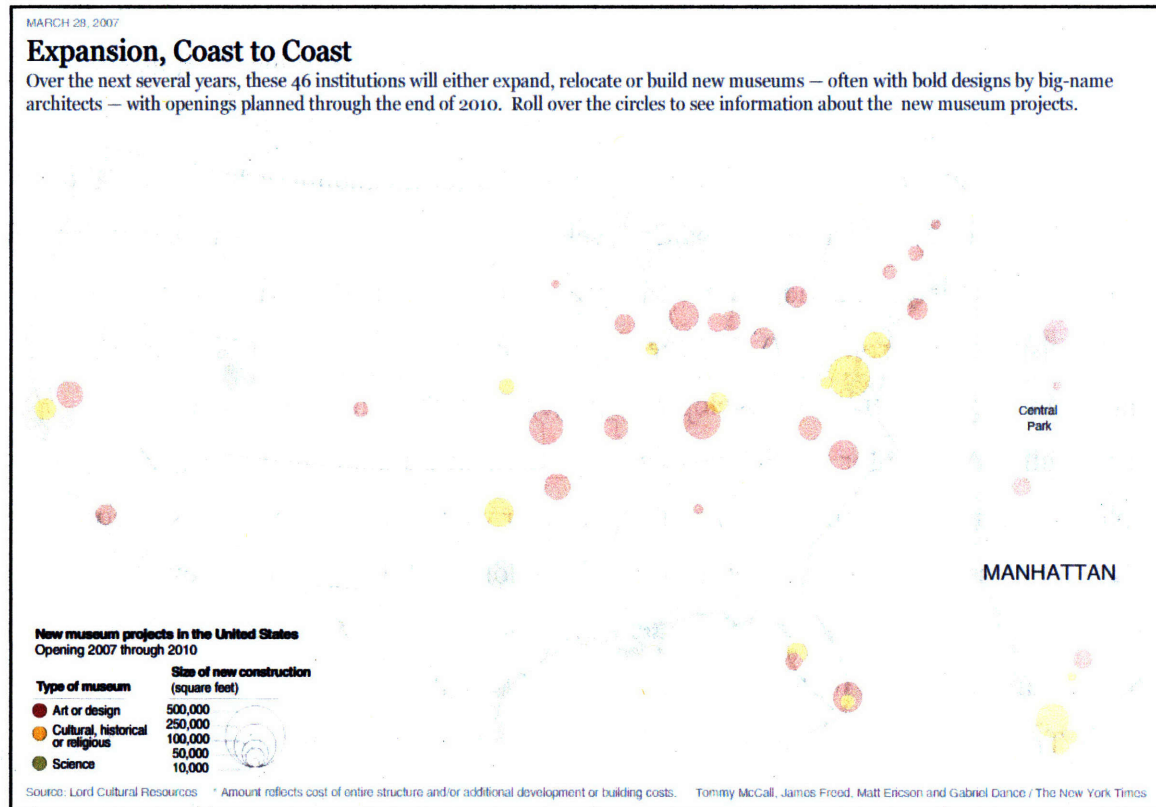
built, and spending the rest of my days at the helm of exciting cultural facility development projects. However, as I delved into the topic, I quickly realized that I had been swept up in the excitement of some spectacular project openings, but that the true impact of these projects, on arts organizations and on the sector, was actually very worrying.

Returning my attention to the CFF, I began to worry that I had entangled myself with a program that would only feed the fire and lead to a dramatic bursting of the cultural facilities building bubble. I was apprehensive when I sat down to talk with Charlie McDermott, Deputy Director of the Massachusetts Cultural Council, one of the biggest champions of the CFF, and its chief architect. Then, in plain terms, Charlie told me that the true role of the CFF, a fund established to provide support for cultural facility development, was to *stop* the development of cultural facilities, or at least to stop their development in the current destructive fashion. The goal was to use the CFF as a draw to then change the way that organizations approach the process by promoting good decision-making and a comprehensive planning process. I was struck by the subversiveness of it all, which it got me thinking about the role of public funding support in cultural facility development.

In this thesis, I explore the variety of roles the state can play in the cultural facility development process. The great variety is due to a number of different factors in program design, such as program size and key decision-making entities, that affect a state agency's ability to act in an effective manner. There are two parts to program effectiveness—is it getting done? And, is it getting done well?—that are attributable to adequate funding and good discretionary judgment, respectively. Unfortunately, there is an inverse relationship between these two factors, which makes program effectiveness a challenge. Given this relationship, state agencies are forced to compensate for the sacrifice of one feature for the other, to varying degrees of success.

CHAPTER 1: Setting the Scene

We are in the midst of a cultural building boom. In March 2007, The New York Times produced a special feature on museum expansions (<http://www.nytimes.com/museums>), with an interactive graphic highlighting 46 projects in development across the country with openings planned in 2007 through 2010.



A screen capture of the interactive graphic from The New York Times website.

This was accompanied by articles on a wide range of topics, from an assessment of how physical work actually plays out in expansion and renovation projects, to the long term viability of museums that are created from personal collections by wealthy individuals. Robin Pogrebin's article, "Grand Plans and Huge Spending," offered a few explanations for the motivations behind the building explosion: museums anticipate increased media coverage, new donors, and more visitors; local governments see cultural institutions as economic engines; and donors like to support prestigious construction projects and see their names on buildings. Pogrebin included a paragraph stating that "some art experts warn that all this new building could backfire" on account of bigger

bills and the often overlooked need to raise money for future operating expenses in addition to immediate construction costs. However, the article ended brightly with “For the moment, however, these are glory days.”

Indeed, it is a heady time *for architects* that get to design a project that is as much a piece of art as the works that are contained within. Recently, my in-box has been flooded (courtesy of Google Alerts) with “cultural facilities” articles about Stephen Holl’s glowing achievement for his addition to the Nelson-Atkins Museum in Kansas City. Coming in just under budget at \$196 million, the project brought the museum’s total square footage to 399,000 sf and also a great deal of favorable press. A turnout of over 67,000 visitors exceeded expectations of 65,000 for the month of June 2007, though it remains to be seen whether attendance levels will continue in order to meet a projection of 650,000 for the year, almost double the pre-expansion attendance rate of 350,000 annual visitors (Thorson 2007). As a reference point, the Guggenheim Museum Bilbao, that gold standard of cultural development projects which all museums (and municipalities) strive for at some level when undertaking a building project, achieved triple the estimated attendance in its inaugural year with 1.35 million visitors, according to a 1998 press release from the museum. The Solomon R. Guggenheim Foundation’s most recent annual report stated that attendance had remained strong at more than 965,000 annual visitors in 2005, its eighth year of operations.

Though architects may be enjoying their glory days, it is the museums that are left to deal with what happens beyond “for the moment.” The passage of time often reveals weaknesses in the foundation (literal and metaphorical) of a project. Unfortunately, many examples have come to light in the past year. The Carnival Center for the Performing Arts, designed by Cesar Pelli, opened to great fanfare in October 2006. At \$473 million and 525,000 square feet, the project was trumpeted as a big project for a big international city. However, in its first year of operation, the Center has already received a \$4.1 million bailout from Miami-Dade County for operating shortfalls that resulted from rapidly escalating utility costs, overly optimistic ticket sale revenues, and a failure to increase projected expenses when the project size increased from 476,000 square feet (Chang 2007). The Denver Art Museum’s expansion project, designed by Daniel Libeskind, at \$110 million and 146,000 square feet, also opened in October 2006. In

April 2007 the museum was forced to cut staff by 14% amidst financial turbulence (Litt 2007). The Royal Ontario Museum in Toronto also boasted a Libeskind-designed addition, the Michael Lee-Chin Crystal, when it opened last month. Unfortunately, the museum also laid off at least 24 summer workers when attendance figures came in low—1,500 to 3,000 visitors on weekdays, compared with an anticipated 10,000 visitors a day. If attendance continues to fall short by several thousand visitors a day, the shortfall in anticipated revenues would be more than C\$100,000 each week (Ross 2007).

This collective anecdotal evidence points to an uncertain future for the arts sector with so many similarly high-profile and ambitious projects in the pipeline. If facilities continue to cause financial hardship and instability for the organizations to which they provide a home, the future prospects of arts and cultural organizations seeking to expand and/or invest in capital projects may be in doubt. More importantly, the entire sector could be destabilized, with already limited funding directed toward the financial bailouts of poorly planned projects rather than the support of artistic missions and pursuits.

Martin Mayer's *Bricks, Mortar and the Performing Arts*

It may or may not be reassuring to know that the current building boom, and its associated difficulties, is not a new phenomenon. 173 arts centers and theaters were completed in the United States from 1962-69, with another 179 in planning or construction as of 1970. During the same period, over two thirds of all monetary support to the performing arts was allocated to building. That building boom also coincided with financial difficulties for many arts and cultural organizations, prompting Martin Mayer's 1970 Twentieth Century Fund taskforce report, *Bricks, Mortar and the Performing Arts*, to warn that no major facility for the performing arts should be built if the maintenance and operation of the building would unduly burden the performing groups. It is important to note that Mayer believed that the problems were not inherent in the act of building, but rather in the lack of planning for and understanding of the consequences of capital expansion. In fact, he went so far as to state that, with proper oversight, the "largest single controllable factor in the health of the performing arts is the attractiveness, technical adequacy and financial efficiency of their housing... the planning and

managing of physical facilities for the performing arts has come to exert unexpected and largely unrecognized leverage.”

Nonprofit Facilities Fund’s *National Cultural Facilities Study*

Though the arts and cultural sector did not collapse in a spectacular fashion after that earlier building boom, it is not too much more comforting to know that Mayer’s message did not appear to get through to the industry. Indeed, the building continues at an ever-accelerating pace with projects that seem to only grow in scope and ambition even though the same warning is still being issued: owning facilities is destabilizing, often crippling, for many organizations. There are at least some, among the state arts agencies and nonprofit lenders and consultants, that recognize that owning a facility adds a third line of business to an organization’s core mission and fundraising responsibilities, i.e., facilities management, but both cultural organizations and funders still systematically underestimate what it takes to do all these things well (Gill 2006).

Nonprofit Facilities Fund (NFF) is a community development financial institution (CDFI) that offers an integrated package of financial and advisory services and works with nonprofit organizations to increase their capacity and ability to operate effectively in order to serve their communities. In 1992, NFF conducted a National Cultural Facilities Study based on conversations with artists, arts organizations, arts funders, government agencies and others, as well as on an analysis of financial information from individual organizations. Following is a summary of their main findings:

1. *Facilities are central to the arts.* Arts programs are economically inseparable from the facilities that house them. Arts organizations are highly dependent on revenues from audiences or users (typically, almost half of an organization’s income is earned income), thus program managers must constantly balance the cost of their facilities with the revenue they can generate.
2. *Most facilities investment is made without adequate planning.* Arts organizations and their supporters make significant investments in facilities—over \$630 million was committed to the ninety-three projects examined during the study—but without adequate forethought or planning.
 - a. *Lack of broad-based planning:* Successful projects were driven by their

resident organizations' strong sense of their artistic mission, institutional capacity and market. However, typical planning and feasibility studies do not address these factors, focusing too narrowly on addressing the characteristics of a particular site instead. Consequently, real estate “opportunities” rather than the organization's mission and capacity usually drive projects, with poor results.

In typical studies, the peripheral question, “What do we need to do to make this project happen?” replaces the more complex cardinal question, “What kind of facility do we need (and can we support it) over the next 10 years?” This occurs with no questioning of whether the project itself is optimal. Unfortunately, this often leads to the fallacious conclusion that if the project is feasible, it should go forward.

- b. *Underestimation of time and sophistication needed:* Whatever the size of an arts organization, its facility project usually outstrips its capacities—both human and financial—by a sizeable margin. Projects typically require that funds totaling several times annual revenues be assembled while annual operating fundraising is ongoing.
3. *Resources are mistimed and mismatched to facilities development.* Lack of money does not appear to be the primary cause of problems, although it is most frequently cited as the issue when things go wrong. In fact, funds are more likely to be mismatched to need, ill-timed or difficult to access.
4. *Facility activity is both continual and cyclical.* Many capital campaign contributors believe that capital expenditures are one-time events. In reality, building and maintaining facilities is a continual, costly activity that tends to create more activity—not end it—particularly among small and mid-sized organizations. In addition, large-scale activity needs to occur every six to ten years to meet growth-related needs or to address severe deferred maintenance.

The study revealed the great extent to which facilities dominated arts organizations, due to their technical complexity and expensive and time-consuming construction and maintenance. In addition, it highlighted that while *appropriate* facilities (in size and function) are intrinsic to the health of arts organizations, that question is

treated as a peripheral one. This denial means that millions are spent annually to build an enormous asset base without properly conceiving of it or providing for it. As the demands that facilities place on artists and arts organizations and their impact over time are ignored, the results are costly.

NFF found that this process—the way that arts organizations undertake facility projects—needed to change, with a refocusing of resources on: (i) planning and pre-development and (ii) project management, to increase control over implementation. The primary change would be for managers to plan arts facilities in light of their missions, needs and capacities; the principal leverage point to accomplish this would be financial.

NFF believed that although arts organizations need and can use financing and grants designed to help them attract support, they would not be able to use these resources successfully without parallel technical assistance. And while arts organizations need technical assistance to help them plan sound projects, they would not use it unless it was linked to financing and grants. NFF concluded that an intermediary with both financial and technical assistance capabilities could work as an agent of positive change in the industry.

The “One-Two Punch”?: Grant Financing and Technical Assistance

The same cautionary tale regarding cultural facilities was told in 1970, again in 1992, and continues to be issued today. In part, this is because a large amount of the funding in the arts comes from individuals for capital projects (Vladeck 1976, Ellis 2007); no master vision exists and gifts are not made conditional upon adequate broad-based planning. This is not a good reason for a capital funding program to exclude private giving from the mix, but rather, more of an incentive to provide a good example to follow. If a program is to effect a change in the deeply entrenched attitudes and beliefs of the sector, it needs to be a large enough player that it can impose a strategic framework for capital project decisions and establish the criteria that determine the types of projects that get built. The public sector is a good candidate to implement and enforce a responsible capital planning process for the arts and cultural sector. The goal would be to create a public program through which capital funds flow, but that avoids contributing to the existing predicament by applying a rigorous educational and screening process based

on holistic planning principles.

There are two dimensions to being a “large enough player” in financial terms. First, the amount of funding must be large enough that it would seem foolish to disregard it. Second, the funding source must have enough security of flow that it is considered a reliable source. A program can only ensure its influence if the amount of funding and its dependability from year to year are great enough to outweigh the perceived hassle of the strings attached. Otherwise, it would be too easy to dismiss the funding source as non-essential and its impact would be minimal.

Once the financial resources have been established as a significant lure for those embarking upon capital projects, there are several different forms that the technical assistance can take. The most obvious is the provision of grants for undertaking planning and feasibility studies. Also, technical assistance workshops and counseling services can be offered in order to develop business and management skills at an organizational level to adequately plan for a new facility. In addition, the application process—asking the right questions and requiring an overall organization and facilities plan as conditions for funding, for example—can be an effective way to reframe the traditional capital project conception process. At the end of the day, a technical assistance program is successful if “good” projects get built, “bad” projects either change and develop into “good” projects or otherwise do not move forward, and new projects are conceived based on a comprehensive planning process.¹

Ultimately, technical assistance alone does not determine the quality of the projects that get built. Clearly, the selection process is key in assuring that the well-conceived projects move forward and the poorly-conceived do not. The magnitude of the funding is also important, as explained above, but the source of the funding can affect project selection. For example, it is conceivable that a particular funding process could encourage less than ideal projects to be built so as to not lose the funding for that year or in the future. Also, the process through which funds are allocated could result in a project selection process that is motivated by political considerations. Both of these

¹ I define “good” and “bad” projects based on the degree to which the project forwards the mission of the organization undertaking the project, as well as the extent to which the project is based on long term comprehensive planning.

scenarios highlight potential conflicts between achieving significant financial resources and applying stringent project standards through technical assistance processes. This raises the question of whether a program that delivers both effective financing and technical assistance is truly viable. I will explore this issue in greater depth in the examination of specific state programs in the main body of this thesis.

The Role of the State

NFF identified problems with facilities development in the arts and cultural sector and proposed a potential structure for tackling this predicament, but did not go so far as to suggest who the appropriate intermediaries might be. In the public sector, I believe that the state arts agencies (SAAs) are excellent vehicles for implementing cultural facilities funding programs that take the dual-pronged approach to provide both financial and technical assistance resources for the following reasons:

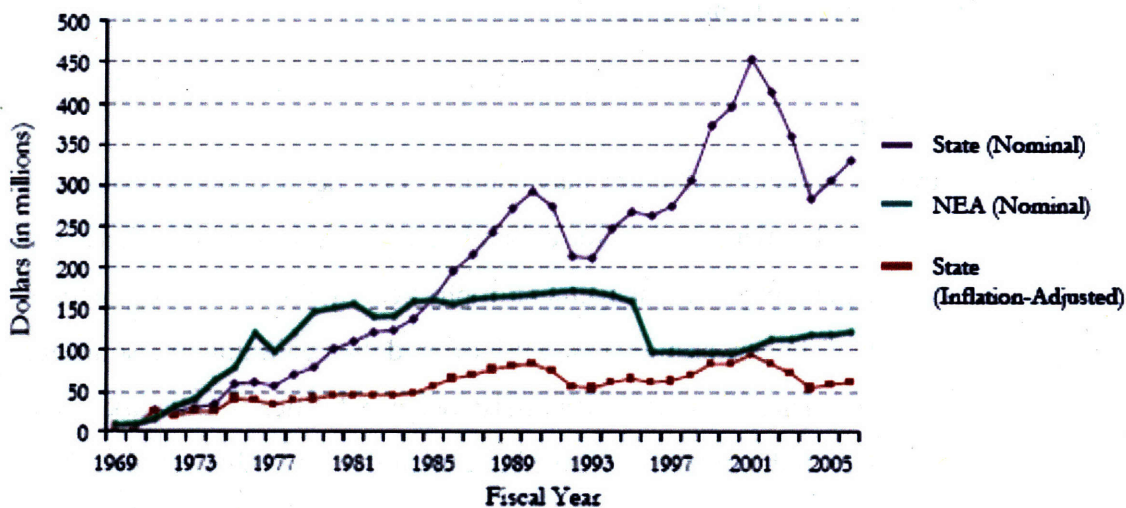
- *“Direct support for the arts at the state level is now—and has been for some time—a more important source of direct government aid to the arts in the United States than is direct support at the federal level”* (Schuster 2003, p. 4).

In the 1960s, arts advocates in the United States used the Arts Council of Great Britain as a model in pressing for national government provision of direct cash support of cultural institutions and cultural activities. Prior to this, the federal government had only been providing base-level financing to Washington D.C.’s museums and cultural activities. However, advocates believed that financial support should be extended to performing arts companies and art museums across the country, and thus, in 1965, the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) were established to support other cultural activities (Netzer 2006).

Government funding of the Endowments peaked in 1980 (in current dollars), was cut sharply during the 1980s and has grown unevenly at modest rates since then. Though, even when funding was at its peak, the total amount of federal money provided for the NEA was too small to permit an ambitious role in support of capital projects. Following the reduction in NEA funding during the 1990s, a considerable percentage of the funds are now passed on directly to the SAAs, which became the new hope for sustained government support of cultural organizations (Netzer 2006).

For fiscal year 2007, state legislatures appropriated \$326.7 million for the state arts agencies, which also received an additional \$20.3 million from other state government sources. The appropriations for the NEA, on the other hand, were \$124.6 million, of which \$32.2 million was passed through to the states. State support for the arts through state arts agencies was almost 2.8 times direct federal support for the arts through the NEA. If the transfers from the NEA to the states, mandated by law to be 40 percent of the NEA's annual program funds, are taken into account, state influence over direct arts expenditure was even higher (Schuster 2003).

CHART 1: National Endowment for the Arts (NEA) and State Arts Agency Legislative Appropriations, Fiscal Years 1969-2007



Sources: National Assembly of State Arts Agencies (NASAA) and NEA

However, it is important to recognize that there is considerable volatility in SAA budgets (as reflected in the graph above), reflecting budgetary pressures confronting state governments during recessions. This is a concern that I will attempt to address later in this thesis in discussions about specific state programs.

- *“Increasingly, cultural programs and projects are being adopted to pursue a wide variety of societal aims (economic development, cultural tourism, intervention with youth at risk, etc.), aims that are more likely to be pursued at the state and local levels because of their closer relationship to the constituencies that are most likely to be affected” (Schuster 2003, p. 5).*

Bruno Frey (1999) states that one of the strengths of American cultural policy is that most direct subsidy to the cultural sector is provided by state and local governments rather than by the national government, because decision-making about each gift is left highly dispersed among thousands of private parties. When the political decisions are made at the local rather than the central government level, there can be more confidence in the process of public choice (Netzer 2006). Cultural goods can be a significant contribution to the local quality of life, justifying the dominance of state and local financing, over federal sources, of cash subsidies to culture. The instrumental benefits of culture are more convincing when they are articulated at a local level—e.g., heritage as a lure to cultural tourism (Schuster 2003). The demands for improved and increased cultural services and opportunities are also much more likely to be expressed at the state and local levels than at the national level.

Research Question

Though the arts and cultural sector may continue to struggle along without a major reform to the development process for cultural facilities, it is clear that there is an opportunity to use the planning and management of physical facilities to exert positive leverage on the health of the performing arts. NFF offered the beginning of a solution: an intermediary with both financial and technical assistance capabilities could work as an agent of positive change in the industry. I have built upon this by further refining the type of financial and technical assistance resources that would be needed to effect a sector-wide change, and by proposing that state-level arts agencies are the appropriate vehicle to implement these dual-pronged cultural facilities funding programs.

This thesis investigates the question of what is the current role of the state in the cultural facility development process, and, in light of the facility-related warnings that have been made over the years, what role should the state take? In evaluating this question, I will study if and how the states have responded to calls for change in the industry. I will also address the feasibility of a state-level cultural facilities funding program that successfully delivers both financial and technical assistance services to the arts and cultural sector.

CHAPTER 2: Literature Review

Chapter 1 set the scene by providing a snapshot of the current (unstable) state of the arts sector with regard to capital projects and their effects. The current state of affairs combined with recommendations from over the years for how to respond to such a situation prompted my question of what role the state plays in the cultural facility development process. However, before I embark upon an examination of actual state practices related to this issue, I will provide some background, from the literature, on the dynamics in the arts sector (and nonprofit sector more generally) that have combined to create this situation. I will also present a brief overview of construction activity and other methods of managing capacity issues in the nonprofit healthcare sector, with a discussion of the governmental actions used to regulate that industry. The hospital facility literature will shed some light on possible analogous policy actions and recommendations to be made for the arts and cultural sectors.

Bruce Vladeck's "Why nonprofits go broke"

In 1976, Bruce Vladeck wrote an article entitled "Why nonprofits go broke" in which he described the state of crises in the nonprofit sectors of health, higher education, and the arts. This peril closely followed a period of great prosperity and aggrandizement. Vladeck believed that this was not just an unfortunate coincidence, but rather, evidence of a causal relationship between boom and bust: In the absence of sufficiently powerful countervailing pressures, nonprofit institutions over-invest in capital expenditures (boom), to the great detriment of organizational health (bust). Meanwhile, public policy, in support of nonprofits, has only served to exacerbate those tendencies by feeding the building fire and then neglecting to follow up with operating support.

The notion that there can be too much investment in the nonprofit sectors may seem strange, unless one recognizes the critical differences between capital and operating expenditures, and between fixed and variable costs. It is in achieving a balance between these that the nonprofits have gone astray. For example, nonprofits often keep separate sets of accounts for facility construction. This propagates the illusion that all is well on the capital side while there is some mysterious financial drain on the operations side.

Better accounting practices that account for the full life cycle costs of a project would make the inconsistency apparent to the organizations as well as to funding sources, inducing them to rethink their guiding policies.

Vladeck highlights characteristics of the nonprofit sectors that create destabilizing situations that may be surprising to those versed in basic economic principles. For example, health, education, and arts services are necessarily highly labor-intensive. While traditional economic theory assumes that capital and labor can be directly substituted for one another, the creation of physical capital in these fields requires an addition, rather than providing a substitution, of new forms of activity. In the nonprofit *service* industries, capital by itself is almost entirely non-productive, and capital investment only increases output if it is accompanied by additional labor inputs. In addition, capital investment is so self-destructive because it increases fixed costs without directly increasing productive capacity. These fixed costs of maintaining and operating physical facilities constitute a largely overlooked and enormous drain on nonprofits. And to add insult to injury, even if investment increases production, most nonprofit institutions charge less for the average unit of service they provide than it costs them to produce it, making up the deficit with some form of subsidy. Thus, capital investment actually increases the institution's ability to lose money (Vladeck 1976).

Vladeck also provides another explanation for the self-destructive dynamics of the nonprofit sector: much of the funding comes from private philanthropy, which tends to favor capital construction over operating expenses. Unfortunately, the traditional giving pattern, of which the public sector is guilty as well, is the provision of seed money (for capital) followed by a period of drought (for operations). At face value, despite these warnings, there is little incentive for institutions to say no to anyone offering "free" money. In addition, cultural organizations set prices by determining their costs, subtracting anticipated revenues from philanthropy, government, and endowments, and then dividing the remainder by the expected volume of clientele. There is no direct relation to the marginal cost to the institution of providing the service, and pricing is not determined by market considerations. Instead, it is the result of a calculation in which total revenues are set equal to total costs—with the costs determined first. The

combination of these two factors, free money and a detachment from the costs resulting from free money, lead to over-investment across the nonprofit sectors.

Technical Development Corporation’s “A New Approach to Planning for Institutional Expansion”

Technical Development Corporation (TDC) is a nonprofit management consultant that works with nonprofit organizations to increase their capacity and ability to operate effectively. As a practitioner that works with actual organizations that are subject to the forces and dynamics that Vladeck describes above, TDC has explored the incentives behind engaging in capital projects, and how an organization can be led astray to invest in the wrong building, despite their best strategic planning efforts. A summary of their article on the subject, “A New Approach to Planning for Institutional Expansion” follows.

TDC believes that the two most commonly accepted beliefs among organizations are that a new building will bring greater revenue, and that design matters in the quality of the new building. They cite a number of underpinnings for the assumption of increased revenues: the success of highly visible projects like the Guggenheim’s Bilbao in creating a destination; the economic argument, articulated most recently by Richard Florida in his book, *The Rise of the Creative Class*, that the creative class is key to vibrant, healthy cities; and the idea of visible marketability or branding through a physical presence—build it and they will come. While these three assumptions are not faulty in and of themselves, separately and in combination, they have created a level of excitement and a promise for transformation that may not be warranted in all of the situations in which they are being applied.

In a conversation with Susan Nelson, a Principal at TDC, she discussed how these are not only assumptions held by organizations looking to embark upon a capital project, but also by local governments that ultimately have the authority to approve or deny a project. Susan Chin, Assistant Commissioner at New York City’s Department of Cultural Affairs echoed this sentiment, describing how New York City’s planning department is seeing many mixed use projects come across their desks these days, and that they are looking for community benefits. Arts facilities are

preferred over, say a community health clinic, and are frequently getting thrown into a project by a developer (or being requested by the local government) to ease the approvals process. Unfortunately, nobody consults the arts organizations that are then saddled with the facility.

TDC's second commonly accepted belief, 'Design matters,' has also been growing in resonance. The rise of the "star-architect", that famed, world-renowned architect, is evidence of this trend, as discussed in Chapter 1. These architects are hired with the assumption that both their name and their design ingenuity will be a source of strength and drawing power for the project. "Good design," as a general expectation, without an understanding of what that means exactly, has become a baseline in decision making.

Once an institution has made the decision to build, everyone is eager to see the vision realized. However, TDC cautions that as momentum takes over, strategic thinking may give way to tactical thinking. Instead of the institutional vision and programmatic ambition being the coordinating center of creative energy, the design concept itself becomes a driving force in decision-making. TDC warns that the greatest risk is investing in the wrong building. Though it may be an architectural masterpiece, if it fails to advance institutional mission and programmatic goals, the project has failed.

TDC also presents a list of the most commonly used assertions, in which the emotional attachment to the ideas discussed above are disguised within broader strategic arguments for new investments:

- The old building *is* the problem: If an organization appears to be operating soundly, but has outgrown its existing space, it may be tempted to move straight into a building project without stopping to test the underlying strategic assumptions.
- A new building will solve our problems: Whether fueled by a desire to keep up with peer institutions or by the thought that a new building will generate revenue, some institutions find construction a more exciting solution to problem solving than the hard work of long term strategic positioning. Sometimes, it is the only plan of action that a board can agree upon and rally around.
- A new building can redefine us: When an organization rethinks its mission—and uses construction to re-brand its identity—the stakes are particularly high.

None of these approaches is inherently wrong, and they can result in success, but results can also fall far short of the high initial expectations because the reasons do not align with the actual vision and programmatic ambition of the institution.

Adrian Ellis, Interview

Adrian Ellis, of Adrian Ellis Associates (AEA) Consulting, a company that specializes in strategic, operational and facilities planning for cultural organizations, is another on-the-ground practitioner who believes there is a systemic bias towards the oversupply of arts buildings for the following reasons:

- Funding flows to new construction projects over operating/maintenance expenses, regardless of need, and the funding is not fungible. An organization can generally raise money for a new wing, whether the expansion is justified or not, but a new boiler in the basement is a much less glamorous proposition, for which there are few takers. This is in agreement with Vladeck's experience with private philanthropy, reported above.
- Micro decisions can be logical, though often overly optimistic, but the ultimate result may be far off track. Many arts organizations get their facilities advice from architects, capital campaign consultants and board members. However, architects focus on the building, not the market; fundraisers focus on how much can be raised in a one-time campaign (the easier fundraising task), not on the ability of the organization to support the building over time; and pro-bono real estate, legal or financial professionals are seldom experienced with the nonprofit arts market and business model. The problem is the lack of a holistic project viewpoint that can cause a project to balloon out of control without ever questioning whether the project is warranted in the first place.

As a result of these factors, building has proceeded at a rapid pace and capital projects have increased the sector's fixed cost base, but without creating a corresponding increase in its access to earned or contributed income required to maintain that base. Again, Ellis echoes Vladeck, whose ideas are still in play 30 years after his article was published. In addition, Ellis believes that uncontrolled decades of building for the arts and attempting to spread culture across the land have skewed the balance between supply

and demand. Thus, the expansive investment in capital expenditures have inadvertently destabilized the sector, causing it to be weakly capitalized and over-extended.

Hospital Facility Development

With a clearer picture of how the arts sector ended up in its current state after explanations from academics and on-the-ground practitioners, we now turn our attention to another nonprofit sector—health—that has also experienced rapid expansion in its facilities to observe how this sector dealt with the resulting consequences.

In his above-referenced article, Vladeck told the story of how the enormous escalation of hospital costs due to rapid expansion forced a recognition of the dangers of over-investment. He explained how elaborate governmental mechanisms were established to limit and rationalize the construction of health facilities and the needless duplication of capacity. For example, sections of the 1972 Social Security Amendments forbid Medicare or Medicaid reimbursement for facilities constructed without appropriate “certificates of need” (CON) from designated state agencies. However, Vladeck’s belief was that while federal legislation has made it more difficult for health facilities to blindly proceed with expansion, determined administrators could still find the money somewhere else.

In two recent 2006 articles, “TRENDS – Construction Activity in US Hospitals” and “The Transition From Excess Capacity to Strained Capacity in US Hospitals,” Gloria Bazzoli and her co-authors explore the increased construction activity in US hospitals and its drivers, and other institutional responses to strained capacity in the sector. They evaluate the effectiveness of CON regulations with reference to these issues. Their findings are summarized below.

Bazzoli et al reported that hospitals nationwide have engaged in increased construction activity in recent years. There are four primary types of activity: 1) building of new full-service hospitals or substantial expansion of existing general hospital capacity, 2) building of new facilities or expansion of existing capacity for specific specialty services, 3) replacement of old facilities, in total or in part, and 4) expansion of capacity in particular service areas due to patient demand exceeding current supply. Each of these activities has different driving forces, as well as different ramifications on the

sector. For example, the cost of new buildings is clearly much greater in magnitude than the expansion of capacity, and seems to be largely motivated by rapid population growth. The replacement of old facilities deals with facilities in need of restructuring due to issues of obsolescence and new consumer preferences. For example, hospital space is being restructured to accommodate new technology, and existing bed capacity is being converted to private rooms.

All of these construction activities are due in some part to issues of strained capacity. Putting aside the question of whether capacity is actually limited, or whether it is merely the perception of strained capacity, how do health institutions deal with this issue? If a hospital believes that it does not have optimal capacity, it is likely to try to adjust its supply of services. Maintaining too much capacity can entail costs that may not be compensated by existing payment methods and too little capacity means that hospital is turning away too many patients. An important characteristic of this adjustment is that it can be made in both directions; if a hospital can no longer maintain expensive excess capacity, it can plan to downsize and restructure of services. Hospitals are able to adjust capacity at a micro scale (i.e. by the bed), and this ability to open/close beds is an important part of capacity management. Another aspect of capacity management is the ability to institute internal procedures to facilitate throughput or continuously monitor bed availability. In addition, the use of flexible scheduling ensures a more even use of existing capacity.

Hospitals have a variety of ways in which to optimize their capacity level, but if they do decide that construction activity is their best course of action, regulations may come into play. These differ depending on location, as there is great variation in the Certificate of Need (CON) requirements across the country. Some states require hospitals to gain CON agency approval for hospital expansion and building projects, and the hurdle of obtaining CON approval may force hospitals to think of approaches other than bed expansion to deal with their capacity problems. Florida's strict CON regulation requires hospital systems to use licensed capacity not currently in service at existing hospitals to accommodate need for added bed capacity.

If there is a lack of CON oversight, one might expect to see a greater focus on hospital expansions rather than capacity management. However, CON regulations are as

prevalent in communities with a lot of new construction as in communities where building activity was absent. Indeed, existing empirical evidence and market observations suggest that CON has not had a substantial effect on hospitals' expansion or cost of care (Bazzoli 2006). While CON regulations do not appear to have affected occurrence of construction activity, they may have influenced the intensity and speed with which hospitals pursue construction activities. For example, perhaps institutions showed greater interest in better management of existing capacity in the face of growing demand, because they could not move quickly to build more capacity.

What does all of this mean for the arts sector? First, hospitals have an ability to micromanage their level of service delivery to the bed, and have access to a variety of other actions under the heading of capacity management. The arts industry does not have the luxury of this fine-grained level of control. Another important difference is that within a hospital, the difference between beds is greater than the difference between seats in a performance hall, with placement in one unit being more appropriate than placement in another. However, between hospitals, there is more of a direct substitution effect than that which exists between different cultural facilities. Thus, strict regulations such as Florida's regarding the use of existing capacity before new facilities can be built, may not be transferable to the arts sector. However, the concept of pooling cultural resources across a region (beyond a strict substitution of one facility's resources for another's) should not be discounted and is worth further exploration.

CON regulations should be effective as a deterrent to build if institutions have other tools that effectively deal with capacity excesses and shortfalls. Despite hospitals having the option to turn to capacity management over facility development, at least in the short term, the effect of CON regulations is ambiguous at best. Thus, it is hard to see the effective application of this policy to the arts sector, which does not have as extensive of a toolkit with which to work. Though CON may not be an effective way to realize an oversight structure with regional scope, these are guiding principles that should be incorporated into a state-level program in some form. It may be that the purely approval-oriented nature of CON is not sufficient to deter construction, and that a technical assistance aspect needs to be included.

CHAPTER 3: State-Level Cultural Facilities Funding Programs

In this chapter, I turn to study the current roles that the states are playing in the cultural facility development process. Many cultural facilities funding programs are administered at the local level rather than the state level, as very few state arts agencies (SAAs) have a mandate to support cultural facilities or capital investment, at least, not directly. In fact, in many cases an SAA's enabling legislation will explicitly prohibit the giving of grants to cover capital costs out of its state-funded budget. In 2004 only 4.4% of total SAA grant making was directed to facility construction/renovation/maintenance (Lowell 2007). Of the 22 state-level grant programs that are specifically directed toward arts and cultural facilities (though not exclusively, in all cases), only 15 of these programs are actually administered through the SAA.

A Note on Methodology

I made contact with each state's arts agency as the point of entry into that state's universe of capital project funding opportunities. The presumption was that even if the SAA were not responsible for administering a capital grant program, it would be aware of the opportunities, if any, that existed within the state. Conversations with SAA staff often led to historic preservation resources and economic development initiatives outside the arts agency. This is unsurprising, given the high incidence of cultural facilities in historic buildings (Abbott 2004) and the recent trend of downtown arts district development for economic development purposes as discussed in Chapter 2. However, unless a program specifically includes arts and/or cultural facilities as projects eligible to be funded (as opposed to a generic facility project, of which a cultural facility could be an example), I did not pursue it for further study.

Table 1 on the following page provides basic information about program size, demand expressed in terms of total funds requested and number of applicants, and funding sources for the 22 state-level grant programs. Table 2 presents the same information as Table 1, but is sorted by the ratio of \$ Funded/\$ Requested as an example of one way to rank the effectiveness of the different programs. After an analysis of the program impacts as they are influenced by aspects of program size, I will shift the focus

to the technical assistance components that affect the quality of the projects, articulated through the scope of eligible activity and decision-making processes for each program (presented in Table 4). I will conclude the chapter by relating the different program structures, categorized by the decision-making entities at various points in the process, to the level of program funding. Through an examination of this relationship, in combination with everything learned through the analysis of current state programs in this chapter, I will select the case studies to be evaluated in the following chapters.

TABLE 1: State-Level Cultural Facilities Funding Programs - Sorted by Annual Funding

State Agency	Annual Funding **	Population (2006 estimate)	Annual Funding (Per Capita)	# Grantees	Average Capital Grant	Grant Ceiling	\$ Requested	# Applicants	Average Capital Grant Requested	\$ Funded/\$ Requested Ratio	Grantees/Applicants Ratio	Avg \$ Funded/Avg \$ Requested Ratio	Funding Source
Montana Arts Council (b)	\$ 25,750	944,632	\$ 0.03	3	\$ 10,300	none	\$ 109,499	5	\$ 24,333	0.24	0.56	0.42	interest from Coal Trust
Delaware Division of the Arts	\$ 64,625	853,476	\$ 0.08	6	\$ 10,771	none	\$ 80,609	7	\$ 11,516	0.80	0.86	0.94	interest from ArtCo endowment
Idaho Commission on the Arts	\$ 113,217	1,466,465	\$ 0.08	20	\$ 5,680	\$ 10,000	\$ 273,426	35	\$ 7,812	0.41	0.57	0.72	State and NEA
Maine Arts Commission	\$ 120,000	1,321,574	\$ 0.09	12	\$ 10,000	\$ 10,000	\$ 207,956	21	\$ 9,903	0.58	0.57	1.01	voter-approved bond
New Hampshire State Council on the Arts	\$ 120,000	1,314,895	\$ 0.09	11	\$ 10,909	\$ 20,000	\$ 183,065	18	\$ 10,170	0.66	0.61	1.07	proceeds from Conservation License Plate Trust Fund; State and NEA
Nevada Arts Council	\$ 123,046	2,495,529	\$ 0.05	3	\$ 41,015	\$ 50,000	\$ 125,000	3	\$ 41,667	0.98	1.00	0.98	State and NEA
Vermont Arts Council	\$ 200,000	623,908	\$ 0.32	15	\$ 13,333	\$ 20,000	\$ 320,000	26	\$ 12,308	0.63	0.58	1.08	State
New Jersey Cultural Trust *	\$ 253,848	8,724,560	\$ 0.03	9	\$ 28,205	\$ 50,000	\$ 323,312	12	\$ 26,943	0.79	0.75	1.05	interest from Cultural Trust Fund
West Virginia Commission on the Arts	\$ 317,500	1,818,470	\$ 0.17	4	\$ 79,375	\$ 500,000	\$ 1,807,393	15	\$ 120,493	0.18	0.27	0.66	proceeds from lottery; State
Connecticut Commission on Culture & Tourism (CCT)	\$ 332,331	3,504,809	\$ 0.09	6	\$ 55,389	\$ 75,000	\$ 487,331	9	\$ 54,148	0.68	0.67	1.02	State
Alabama State Council on the Arts	\$ 345,000	4,599,030	\$ 0.08	7	\$ 49,286	\$ 100,000	\$ 1,241,289	23	\$ 53,969	0.28	0.30	0.91	State
Wyoming Cultural Trust Fund *	\$ 455,000 ***	515,004	\$ 0.88	9	\$ 16,916	\$ 50,000	\$ 2,200,000	53	\$ 41,509	0.21	0.62	0.33	interest from Cultural Trust Fund
Michigan Council for Arts & Cultural Affairs	\$ 499,100	10,095,643	\$ 0.05	16	\$ 31,194	\$ 50,000	\$ 925,637	22	\$ 42,074	0.54	0.73	0.74	State
New York State Council on the Arts	\$ 851,607	19,306,183	\$ 0.04	23	\$ 37,026	\$ 50,000	\$ 2,516,603	65	\$ 38,717	0.34	0.35	0.96	State
Rhode Island Historical Preservation & Heritage Commission *	\$ 1,000,000 ****	1,067,610	\$ 0.94	21	\$ 47,619	\$ 100,000	\$ 3,000,000	40	\$ 75,000	0.33	0.53	0.63	voter-approved bond
South Carolina Arts Commission	\$ 1,199,607 *****	4,321,249	\$ 0.28	37	\$ 32,422	\$ 200,000	\$ 1,199,607	37	\$ 32,422	1.00	1.00	1.00	State
Mississippi Arts Commission	\$ 2,000,000	2,910,540	\$ 0.69	13	\$ 153,846	\$ 500,000	\$ 4,698,368	17	\$ 276,375	0.43	0.76	0.56	State
Washington State Department of Community, Trade and Economic Development * (b)	\$ 6,000,000	6,395,798	\$ 0.94	12	\$ 521,739	\$1,000,000	\$ 9,557,453	13	\$ 735,189	0.63	0.88	0.71	State
Florida Division of Cultural Affairs	\$ 14,453,228 *****	18,089,888	\$ 0.80	36	\$ 401,479	\$ 500,000	\$ 16,568,877	43	\$ 385,323	0.87	0.84	1.04	State
Massachusetts Cultural Council	\$ 16,969,688	6,437,193	\$ 2.64	53	\$ 306,057	\$5,000,000	\$ 80,357,792	201	\$ 399,790	0.21	0.26	0.77	State
Ohio Cultural Facilities Commission * (b)	\$ 27,648,000 *****	11,478,006	\$ 2.41	50	\$ 552,960	none	\$ 93,671,205	94	\$ 996,502	0.30	0.53	0.55	State
California Cultural and Historical Endowment (CCHHE) *	\$ 42,500,000 ***	36,457,549	\$ 1.17	42	\$ 896,659	\$3,000,000	\$ 250,379,549	263	\$ 952,013	0.17	0.16	0.94	voter-approved bond

(b) Funding is allocated on a biennial basis. Annual funding and # of grantees is reported at half of the biennial allocation for the purposes of comparison.

* Agency is separate and independent from the SAA.

** Annual Funding amounts are for FY 2007, except for Delaware, Massachusetts, and New Hampshire, which reflect FY 2008 amounts.

*** The Wyoming Cultural Trust Fund grant program funds a wide scope of activities. Annual funding drops to \$152,247 when only capital expenses are considered, which is reflected in the amounts reported for # of Grantees and Average Capital Grant. The ratios reflect numbers for the entire program.

**** Both California and Rhode Island are in the final phase of funding for their respective bond issues.

***** Both Florida and South Carolina were unsuccessful in securing appropriations from their state legislatures for FY 2008. The reported numbers are from FY 2007, the last year in which these programs were funded.

***** This amount includes only cultural facilities funding and does not include approximately \$7 million allocated to sports facilities through the same funding process.

A Discussion on the Choice of Variables

In Chapter 1 I presented the idea that a funding program needed to be a “large enough player” in order to effect a change in the industry. I defined “large enough” to mean that the amount of funding and its reliability from year to year would be strong enough to outweigh the perceived hassle of the strings attached. In this chapter, the analysis begins with an examination of the different ways to quantify and assess the size and security of the state-level programs, in order to ultimately evaluate program impact.

In Table 1, the programs are listed in ascending order based upon the size of the program in terms of *annual funding*, and are divided into three groups based on the same criteria: Less than \$1 million; \$1 million – 9,999,999; and Over \$10 million. However, gross annual funding is by no means the only way to evaluate program size, and it is treated merely as a jumping off point in this analysis. For example, in a list of states where the population ranges from just over 500,000 (Wyoming) to almost 36.5 million (California), *per capita annual funding* should also be assessed. Another useful descriptor of program size is the *number of grantees*.

Metrics that describe program size are not that informative without a context in which to base them. A simple calculation, such as gross annual funding divided by the number of recipients, yields an *average capital grant* for each program, one indicator of program impact or effectiveness. Similarly, the *grant ceiling* for each program indicates the potential impact of funding, and may reveal certain intentions of the program, such as the scale or type of capital project to be supported. A comparison between the average grant awarded and the grant ceiling can give insight into the extent to which the program administrator’s ambitions are constrained by actual funding allocations. A comparison between funding granted and funding requested also makes the funding constraint apparent. I use the total *funding requested* and the *number of applicants* to estimate the demand for funding. The *ratios of amounts funded to requested* presented in Tables 1 and 2 can be used as indicators of how well the demand for cultural facilities funding is being met by the state program, as another measure of program impact. Table 2 tells one version of the many possible stories about program effectiveness.

Finally, knowing the funding source is one important aspect in assessing the security of a funding stream. The categories of sources that emerged from this sample

included dedicated source of revenue, legislative appropriation, and voter-approved bond. Table 3 relates program size in terms of annual funding to these three structures that all have benefits and constraints to be discussed in reference to specific programs.

Program Size

The 22 state programs in the sample range in size, in terms of annual funding, from \$25,750 to \$42,500,000, and are not evenly distributed within that range. *Group 1: Less than \$1 million* in annual funding, is by far the largest with fourteen state programs—Montana, Delaware, Idaho, Maine, New Hampshire, Nevada, Vermont, West Virginia, Connecticut, Alabama, Wyoming, Michigan, New Jersey, and New York. *Group 2: \$1 million - 9,999,999* in annual funding has four states—Rhode Island, South Carolina, Mississippi, and Washington—as does *Group 3: Over \$10 million* in annual funding—Florida, Massachusetts, Ohio, and California. This distribution shows the severe budgetary limitations placed on the majority of the state-level capital project funding programs.

With the exception of Wyoming, the states in Group 1 also have very low per capita annual funding numbers. This means that these states are not only on the low end in absolute terms, but also in terms of how well they are serving their potential audience. The per capita annual funding numbers are significantly higher in Group 2, and still higher in Group 3, indicating that there are significant increases to the levels of support that the two more-generously funded groups of states can provide to their constituencies.

The number of grantees generally grows as annual funding grows, though not nearly at the same rate. This variable needs to be analyzed in conjunction with the average capital grant to receive a full picture of the state's choices and intentions. For example, Idaho's decision to make a larger number of smaller grants (20 in total, \$5,660 on average) illustrates that, especially with limited funding, an agency can make a choice to serve a larger number of grantees, but only at the expense of the size of those grants. Or, as in the case of Nevada, an agency can opt to award a smaller number of more sizeable grants (3 in total, \$41,015 on average).

Within Group 1, there is a distinct trend that even as program size increases, average grant size also increases such that the number of organizations awarded grants is

comparable to that of the smaller programs. This shows the tension between two competing forces: 1) a desire to share the wealth among applicants that results from a decision to recognize all of the projects that attain a certain level of quality rather than a simple recognition of the best (Fox 2007) (or more cynically, to please as many constituents as possible), and 2) a desire to maximize the grant amount, based upon the belief that there is a threshold below which a grant becomes essentially useless, especially with regard to large capital projects. The viewpoint that a larger grant is a more useful grant is also apparent from the increasing values of stipulated grant ceilings as program funding sizes grow. Thus, with both variables wanting to be as large as they can possibly be, a choice must be made that is ultimately a tradeoff between the two factors. Looking at Groups 2 and 3, it is apparent that the former has a lower threshold and that the predilection to maximize the grant amount soon takes over, given how the average capital grant increases exponentially with program size.

Thus, in simply looking at a few different metrics for program size for each state, it is clear that the programs in Groups 2 and 3 are, for the most part, more effective than their smaller counterparts in Group 1, even beyond the absolute value of the annual funding amount. Funding patterns and program guidelines reveal an underlying value statement that grants need to be of a certain minimum size to make an impact, and the larger, the better. At this early stage of analysis, it appears that program size does matter in terms of impact because annual funding is a real limitation on the agency's ability to award effective grants. The role that the Group 1 programs play in the cultural facility development process in their states appears to be a minor one.

Program Impact

Program size, in its various forms of measurement is definitely one component of program impact. Another is how well the program is meeting the demand for its services. In this analysis, I use the total funds requested and the total applicants to represent the demand for program funding. Table 2, on the following page, re-sorts the information in Table 1 based on the new criterion of how well the program is meeting the demand for funding from the applicants, as represented by the ratio of \$ Funded/\$ Requested.

TABLE 2: State-Level Cultural Facilities Funding Programs - Sorted by \$ Funded/\$ Requested Ratio

State Agency	Annual Funding **	Population (2006 estimate)	Annual Funding (Per Capita)	# Grantees	Average Capital Grant	Grant Ceiling	\$ Requested	# Applicants	Average Capital Grant Requested	\$ Funded/\$ Requested Ratio	Grantees/Applicants Ratio	Avg \$ Funded/Avg \$ Requested Ratio	Funding Source
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(b) Funding is allocated on a biennial basis. Annual funding and # of grantees is reported at half of the biennial allocation for the purposes of comparison.

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***** This amount includes only cultural facilities funding and does not include approximately \$7 million allocated to sports facilities through the same funding process.

***** Both Florida and South Carolina were unsuccessful in securing appropriations from their state legislatures for FY 2008. The reported numbers are from FY 2007, the last year in which these programs were funded.

The three ratios are obviously tightly tied to one another (the \$ Funded/\$ Requested, or “Total ratio,” is the product of the Grantees/Applicants ratio and Avg \$ Funded/Avg \$ Requested, or “Avg ratio”), but looking at the three numbers, side by side, for each state reveals certain things about each program. Not only can one see how well (or poorly) a state is meeting the demand for its program funding, but one can tell whether it is falling short with respect to the number of grantees or whether it is reducing the size of the grant award. In the face of scarce resources, it appears that most programs make the choice to maintain the size of the award, sacrificing the number of grants given. Even California’s program, at the bottom of the rankings with a Total ratio of 0.17, awards grants at 94% of their requested value, on average. I articulated the reasoning behind this apparent glass floor in the previous section (the fear of reducing an amount below the threshold for utility). Programs appear to be taking their cue for the appropriate size for the grant from the applicants, with more than half of the Avg ratios within 10% above or below 1.0.²

There are a number of caveats regarding the methodology for this analysis. First, though the application numbers may represent the number of the projects requesting funding, it does not capture the number of *qualified* projects that should receive funding. Thus, it is likely that the reported demand is high, and the resulting ratio too low. Programs that are successfully filtering out the unsustainable and poorly conceived projects are punished in this ranking system. Second, success begets success, and a more effective program will attract more applicants and create more “demand” for its product than a failing one. In this exercise though, that positive performance aspect will translate into a lower ratio, giving the false impression that the program is disappointing on some level. Third, all of these programs are in different stages of development and their “demand” numbers may not be at an equilibrium level. For example, California and Rhode Island are both in the last stages of their respective bond issues, and the termination of their programs may have raised the number of applications as organizations seized upon this “one last chance.” Or, on the flip side, this is the inaugural

² While it is impossible for a Total ratio or Grantees/Applicants ratio to be above 1.0 without programs granting more than was applied for or to those that did not apply, it is possible for the Avg ratio to exceed 1.0 due to the element of project selection amongst a range of grant sizes

year for Massachusetts's program, so the high applicant turnout may be the result of years of pent-up demand.

Despite these caveats, Table 2 still provides a useful exercise, and if it does not present a completely accurate picture of a program's ability to meet demand, it certainly tells a story about that program's ability to secure funding, a different measure of effectiveness. In this iteration, annual funding is clearly not a determinant of success, with California, Massachusetts and Ohio falling dramatically in the rankings. South Carolina is at the top of the list due to its unique program design, which states that if an organization and project meet eligibility requirements, they would receive funding, subject to legislative appropriation. This arrangement was intended to encourage and support advocacy efforts, and it worked according to plan in FY 2007. Legislators were assured that, if there was a qualified applicant in their districts, that applicant would be assured an award if the program funding was approved by the state. However, the FY 2008 funding round did not receive an appropriation in the most recent legislative session (which should drop South Carolina's ratio to 0.0 for this year).

Florida's Cultural Facilities Program is another program that was unsuccessful in receiving an appropriation from the State Legislature in the most recent funding cycle. However, though its record is not 100% in the years that it is successful, this program's design also assures that a very high proportion of project applicants get funded. The reason that Florida's funding rate is below 100% is because its review process is more stringent than South Carolina's, and eligibility does not guarantee funding. Instead, the SAA reviews, ranks and submits a list of recommended projects as a package to the Legislature for selection and approval. The Legislature chooses to fund or not to fund the program (they also have the discretion to only fund a portion of it). The approved grants ultimately appear as line items in the state budget.

The programs in South Carolina and Florida (and Washington³ and Montana) have the novel feature of applying for funding *before* the annual capital budget appropriation for the program is approved by the Legislature. In this process, it is the

³ This program feature, among others, is extensively written up in a description of Washington's Building for the Arts program in *Mapping State Cultural Policy: The State of Washington*, ed. by J. Mark Schuster.

Legislature that can take direct credit for the funding decision because it is the Legislature that approves explicit line items for the recommended projects as part of its approval of the state's capital budget (Schuster 2003). While this feature seems to increase the likelihood of being fully or close to fully funded as a program, it does have an element of "all or nothing" to it. If Total ratio were determined based on historic performance with 0.0s factored in, both of these states would find their ratios much lower in the rankings.

Table 2 expands the notion of an effective state program beyond program size and ranks the programs by how well they are able to attain funding to meet the demand for their grants. Overall, only half of the programs are meeting more than 50% of the demand for funding, which indicates a severe funding gap, even if one assumes that not all of the demand is legitimate. An observation of the funding patterns for each of the programs, and their clear choice to maintain grant size instead of number of awards, reaffirms the idea that size matters. However, the ability of many of the smaller programs to secure funds to better meet the demand for their grants is important to recognize. This suggests that the earlier statement, that Group 1 state programs could only play a minor role in the cultural facility development process due to their lack of scale, is worth revisiting.

Funding Sources

The source of funding is important in assessing the security of a funding stream. Those states with a *dedicated source of revenue* offer the most security, though even these structures cannot be 100% guaranteed. As mentioned in Chapter 1, there is considerable volatility in the level of *legislative appropriations* because of budgetary pressures confronting state governments during recessions, thus programs funded by annual or biennial appropriations from the state are always at risk to suffer cuts to their program budgets or even a complete loss of funds in a given cycle. Finally, providing the lowest level of consistency of funding, programs funded by *voter-approved bonds* have expiration dates unless another bond issue can be approved. Table 3 relates program size to these three structures, arranged in order by level of consistency of funding.

TABLE 3: Annual Funding vs Funding Source

		FUNDING SOURCE			# of State Programs
		Dedicated source	State/ State & NEA	Voter-approved bond	
ANNUAL FUNDING	Less than \$1 million	Delaware, Montana, New Hampshire, New Jersey, West Virginia, Wyoming	Alabama, Connecticut, Idaho, Michigan, Nevada, New York, Vermont	Maine	14
	\$1 million - 9,999,999		Mississippi, South Carolina, Washington	Rhode Island	4
	Over \$10 million		Florida, Massachusetts, Ohio	California	4
<i># of State Programs</i>		6	13	3	22

It is striking that all six states funded through a dedicated source are in the smallest funding category. Four of these—Delaware, Montana, New Jersey, and Wyoming—are funded from the interest from endowments (though Montana also receives funding support from the General Fund). In all cases, the management of the endowment structure is outside the purview of the state arts agency. In the cases of New Jersey and Wyoming, independent cultural trust funds have been established to manage the endowments of \$21.4 million and \$10 million, respectively, and govern the distribution of the interest. One motivation for this structure is that an endowment is seen as a way to provide financial support for the long term. Another is that the field believes that this is the best hope for additionality in funding, i.e., that endowment interest will add to sources of funding (versus substituting for other sources). This may be true if an endowment’s principal can be protected against raiding interests in the event of economic downturns. New Hampshire and West Virginia both draw from a combination of sources, with their programs funded through the proceeds from the Conservation License Plate Trust Fund and the West Virginia Lottery, respectively, in combination with state appropriations. Though these funding sources are small in magnitude, the single-purpose and dedicated nature of their structure provides a higher level of reliability than that of the annual state appropriations process.

Just over half of the state programs are supported by appropriations from the state or the state and NEA, with substantial representation from all of the categories of annual funding size. There are no hard and fast rules to constrain or enlarge the program size in

this category, with the funding amount ultimately dependent upon the whims and desires of the particular legislature. There is also even representation across the program size categories for those programs supported by voter-approved bonds. As mentioned above, the nature of this latter category of funding can be fleeting. For example, California's Cultural and Historical Endowment (CCHHE) has distributed \$40 million a year on average for the last three years, but has come to the end of the \$120 million voter-approved bond, and Round Three will be the last with significant capital project funding. There are plans to continue with smaller-scale planning grants in the future, but the status of the next substantial infusion of capital project funds is unknown. Neither of these last two funding structure seems to directly affect the level of program funding.

Table 3 shows a tradeoff between funding security and funding magnitude, with all of the dedicated more secure sources limited to the lowest funding size category. It is only the smaller Group 1 programs that are supported by more consistent funding sources. The larger programs may receive more funding dollars, but their existence is not guaranteed by any means. This is important to recognize in assessing the impact of a particular program—it can only be effective if it is in existence.

This section has sought to define program presence and impact in terms of program size and to assess the performance of the state programs in certain specific categories. One thing that is clear is that the magnitude of the *individual* grant size is an important metric in gauging effectiveness, as demonstrated multiple times above. However, there are no explicit winners across the board among the state programs. The largest programs are certainly able to award more effective-sized grants, but even so, they are not able to secure enough funding to meet the demand of their constituents. In addition, they are backed by more volatile funding sources, leaving their long term viability subject to either the political desires of the Legislature or of the voters. What is a state to do under these circumstances? The options, as presented by current practices, are to award a limited number of “large enough” grants, subject to the limitations in size of a dedicated funding stream, or to award more larger grants while you can, and then hope for the best.

Thus far, I have attempted to define effectiveness, but it has all been with regards to the effectiveness in getting a project built, without concern for the quality of the

project and whether it should be undertaken at all. Not only do the logistical and funding issues need to be taken care of for a project to move forward, but there must also be a judgment component that provides the quality check and possible recall. At this point, I will turn my attention to another set of program characteristics that will help illuminate the roles that state programs are playing and their level of effectiveness in more than just the financial dimension. Table 5 contains summary statistics from Tables 1 and 2 and adds information about the scope of eligible activity and the decision-making entities at key points in the review processes. These new variables will serve to illustrate how individual states are providing technical assistance resources and thus contributing to the overall *quality* of the cultural facility development process.

TABLE 4: State-Level Cultural Facilities Funding Programs - Scope of Eligible Activities Decision-Making Entities

State Agency	Annual Funding **	Annual Funding (Per Capita)	# Grantees	Average Capital Grant	\$ Funded/\$ Requested Ratio	Scope of Eligible Activities	Project Ranking/ Selection	Final Funding Approval
I. Less than \$1 million in annual funding								
Montana Arts Council (b)	\$ 25,750	\$ 0.03	3	\$ 10,300	0.24	New construction, renovation; historic preservation; purchase of equipment; additions to a collection or for acquisition of works of art, artifacts or historical documents	advisory committee comprised of 8 arts and 8 history people	Legislature/Gov
Delaware Division of the Arts	\$ 64,625	\$ 0.08	6	\$ 10,771	0.80	No new construction. Maintenance, repairs, or renovations of existing facilities; repair, upgrade, or replacement of capital equipment	independent expert panel	SAA
Idaho Commission on the Arts	\$ 113,217	\$ 0.08	20	\$ 5,660	0.41	New construction, acquisitions, renovations, and feasibility studies for performance, exhibition, or artist spaces, and for public art projects	independent expert panel	SAA commissioner
Maine Arts Commission	\$ 120,000	\$ 0.09	12	\$ 10,000	0.58	New construction, repairs or renovations of existing facilities, or repair, upgrade or replacement of capital technology equipment for a facility; priority will be given to applicants that provide renovation that insures full ADA compliance	committee that includes Arts Commission members and public members with expertise in the field	SAA
New Hampshire State Council on the Arts	\$ 120,000	\$ 0.09	11	\$ 10,909	0.66	New construction, renovation, maintenance, and purchase of major equipment needs of cultural facilities. Projects that preserve the historic fabric and function of cultural facilities while making those facilities, and the arts programming that takes place in them, more accessible to the public, including people with disabilities.	independent expert panel	SAA
Nevada Arts Council	\$ 123,046	\$ 0.05	3	\$ 41,015	0.98	No new construction. Building acquisition or renovation; land acquisition directly related to the organizational mission; major equipment (over \$1,000) or collections acquisition; creation of or addition to existing endowment fund or cash reserve	independent expert panel	SAA board
Vermont Arts Council	\$ 200,000	\$ 0.32	15	\$ 13,333	0.63	Limited to historic preservation. Improvements such as wiring, heating, ADA accessibility features, bathrooms, lighting, and stage work are eligible; new construction may be considered if it is the only option for making access renovations to an historic building	independent expert panel	SAA board
New Jersey Cultural Trust *	\$ 253,848	\$ 0.03	9	\$ 28,205	0.79	Limited to historic preservation. Acquisition, expansion, renovation, plan for, repair, rehabilitate, restore, adaptively reuse, effect long-term leaseholds on, replace, relocate, or otherwise improve cultural or historical properties and facilities	independent expert panel	independent agency (Cultural Trust) board
West Virginia Commission on the Arts	\$ 317,500	\$ 0.17	4	\$ 79,375	0.18	No new construction. Acquisition of real property; renovation and/or construction including alteration needed in order to comply with ADA; durable equipment such as assistive listening devices, dance floors, sound and lighting equipment, projection systems that will expand accessibility and availability of programming; furnishings which contribute to the artistic/historic museum experience and equipment that will enhance earned income of the arts organization/history museum.	independent expert panel	SAA
Connecticut Commission on Culture & Tourism (CCT)	\$ 332,331	\$ 0.09	6	\$ 55,389	0.68	New construction, acquisition, rehabilitation, restoration, stabilization, improvement, expansion	CCT staff and Commission	SAA / State Bond Commission
Alabama State Council on the Arts	\$ 345,000	\$ 0.08	7	\$ 49,286	0.28	New construction, renovations and/or major capital outlay improvements (sound, lighting, climate control, seating, performance or exhibition space, etc.)	independent expert panel	SAA
Wyoming Cultural Trust Fund *	\$ 455,000 ***	\$ 0.88	9	\$ 16,916	0.21	"Bricks and mortar" historical preservation, development of cultural heritage corridors, promotion of cultural tourism, the creation of historic preservation programs and special event programs	representatives of the State Historic Preservation Office, Wyoming Arts Council, and Wyoming Humanities Council	independent agency (Cultural Trust) board
Michigan Council for Arts & Cultural Affairs	\$ 499,100	\$ 0.05	16	\$ 31,194	0.54	Eligibility is limited to municipalities. New construction, acquisition, expansion, renovation; facility structure or system maintenance; purchase of equipment; subgranting to arts & cultural organizations for capital improvement projects	independent expert panel	SAA
New York State Council on the Arts	\$ 851,607	\$ 0.04	23	\$ 37,026	0.34	No new construction. Improvement, expansion, or rehabilitation of existing buildings; capital Projects is particularly concerned with ensuring access to cultural events and services for all New Yorkers	independent expert panel	SAA

TABLE 4: State-Level Cultural Facilities Funding Programs - Scope of Eligible Activities Decision-Making Entities

State Agency	Annual Funding **	Annual Funding (Per Capita)	# Grantees	Average Capital Grant	\$ Funded/\$ Requested Ratio	Scope of Eligible Activities	Project Ranking/ Selection	Final Funding Approval
II. \$1 million - 9,999,999 in annual funding								
Rhode Island Historical Preservation & Heritage Commission *	\$ 1,000,000 ****	\$ 0.94	21	\$ 47,619	0.33	Limited to historic preservation. Capital improvements, defined as preservation, restoration, or rehabilitation expenditures that permanently improve or significantly extend the useful life of the historic property	independent expert panel	independent agency (Commission)
South Carolina Arts Commission	\$ 1,199,607 *****	\$ 0.28	37	\$ 32,422	1.00	New construction, acquisition, renovations, including accessibility upgrades	Arts Commission staff and management	Legislature/Gov
Mississippi Arts Commission	\$ 2,000,000	\$ 0.69	13	\$ 153,846	0.43	New construction, repair, upgrading, expansion, renovation, or enhancement; furniture, equipment and/or technology for such buildings and facilities; acquisition is an eligible project cost, but will be given lower priority than projects dedicated to property renovation or construction	Arts Commission Board of Directors	SAA board
Washington State Department of Community, Trade and Economic Development * (b)	\$ 6,000,000	\$ 0.94	23	\$ 521,739	0.63	Only new construction. Capital budget funds may generally be used to pay for the following construction-related expenses: design, architectural, and engineering work; building permits/fees; archeological/historical review; construction labor and materials; demolition/site preparation; capitalized equipment; information technology infrastructure (cables and wiring); construction management (from external sources only); initial furnishings; landscaping, and real property when purchased specifically for the project, and associated costs.	Building For the Arts Advisory Board	Legislature/Gov
III. Over \$10 million in annual funding								
Florida Division of Cultural Affairs	\$ 14,453,228 *****	\$ 0.80	36	\$ 401,479	0.87	New construction, acquisition, renovation	committee comprised of members of the Florida Arts Council, the 15-member advisory council appointed to advise the Secretary of State regarding cultural grant funding and on all matters pertaining to culture	Legislature/Gov
Massachusetts Cultural Council	\$ 16,969,688	\$ 2.64	53	\$ 306,057	0.21	New construction, acquisition, design, repair, renovation, rehabilitation or deferred maintenance; expenses related to planning and feasibility assessment	independent expert panel	independent Advisory Commission / MassDevelopment
Ohio Cultural Facilities Commission * (b)	\$ 27,648,000 *****	\$ 2.41	50	\$ 552,960	0.30	New construction, renovations, restorations, expansions, exhibits and planning/feasibility studies.	Legislature/Gov	independent agency (Commission)
California Cultural and Historical Endowment (CCHE) *	\$ 42,500,000 ***	\$ 1.17	42	\$ 896,659	0.17	New construction, acquisition, reconstruction/preservation, permanent landscape/hardscape, permanently installed exhibits; planning and feasibility studies	CCHE and California State Library staff, with the assistance of experienced consultants	independent agency (CCHE) board

(b) Funding is allocated on a biennial basis. Annual funding and # of grantees is reported at half of the biennial allocation for the purposes of comparison.

* Agency is separate and independent from the SAA.

** Annual Funding amounts are for FY 2007, except for Delaware, Massachusetts, and New Hampshire, which reflect FY 2008 amounts.

*** The Wyoming Cultural Trust Fund grant program funds a wide scope of activities. Annual funding drops to \$152,247 when only capital expenses are considered, which is reflected in the amounts reported for # of Grantees and Average Capital Grant. The ratios reflect numbers for the entire program.

**** Both Rhode Island and California are in the final phase of funding for their respective bond issues.

***** Both South Carolina and Florida were unsuccessful in securing appropriations from their state legislatures for FY 2008. The reported numbers are from FY 2007, the last year in which these programs were funded.

***** This amount includes only cultural facilities funding and does not include approximately \$7 million allocated to sports facilities through the same funding process.

Scope of Eligible Activities

The scope of eligible activities is unsurprisingly more restricted in Group 1 than in Groups 2 and 3. Four state programs in Group 1 do not allow new construction, thus ruling out the most expensive and ambitious of capital projects, and five programs are focused on accessibility upgrades and provisions, also limiting the scale of the projects that are undertaken. It is surprising however, that Idaho's is the only program that allows for feasibility studies, another smaller-ticket item. This does not mean that the other state agencies do not fund planning and feasibility studies at all, but they may be segregating funding for pure capital funds and technical assistance services into different programs. Although this might have been mandated by the source of funding, it does speak, at some level, to the agencies' perspectives on approaching facility development projects.

Among the programs in Groups 2 and 3, there are essentially no restrictions, except for the case of Washington, which *only* allows new construction, with "minor works" such as general maintenance and repairs, ADA upgrades, equipment, or public art *not* funded as stand-alone projects. It is interesting to note that three of the four largest programs—California, Massachusetts, and Ohio—all allow for planning and feasibility studies. In Massachusetts, the thinking is that these feasibility and technical assistance grants will feed the pipeline of *quality* projects for future capital requests.

The size of a program's annual funding has a direct impact on the effectiveness of a program in terms of matching the activities that are eligible to be funded with constituents' needs. Obviously, less restrictive project eligibility requirements increase the chance that an organization can obtain funding for the scope of work that it wishes to undertake. A more important observation though, is that currently, the larger programs include planning and feasibility grants as part of their facilities funding program. This not only shows the direct provision of an important step in the facility development process, but also reveals support for a comprehensive planning approach in the development process at an agency-level. It also illustrates the real-life application of the dual-pronged approach to financial and technical assistance resources provision.

Decision-Making

So far, the underlying focus in this chapter has been on how to maximize program size in order to maximize impact. However, preventing bad projects from being built would also be a significant contribution to the field. This next section focuses on the decision-making process as a principal component in shaping the quality of the facility development activity in the sector. For the sake of assessing the ability of an agency to impose a new paradigm for prudent development in the cultural sector, I assume that agency control of decisions is a good thing (though this may not always be true).

There are multiple decision points in any program's funding cycle, and it is important to identify the key decisions and decision-makers that influence the ultimate profile of the grantees and their awards. Whether a program is enabled at the legislative level or at the discretion of the agency, the agency is generally responsible for laying the foundations by developing program guidelines that direct the application and review process. This is a vital step that establishes the goals and tone for the entire program. This is also the stage at which criteria is developed to guide the review process. Project applicants are filtered through a review process for the purpose of yielding recommendations for project rankings and/or selection. Project ranking/selection is often the culmination of the program's annual or biennial process, and a key decision-point that will be studied further. Another crucial decision-point that takes place at different points in different processes is the final authorization of funding. Combined, these two decisions control who gets funded how much and for what, outcomes that are critical to the effectiveness of a program in terms of both quality and quantity.

Project Ranking/Selection

The project ranking/selection entities are divided into four categories in Table 5—agency staff, agency board / commission / committee, independent expert panel, and Legislature/Governor—and arranged according to degree of removal from the state agency. Clearly, the closer that the selection entity is to the agency, the greater the influence the agency can have.

TABLE 5: Annual Funding vs Project Ranking/Selection Entity

		PROJECT RANKING/SELECTION ENTITY				# of State Programs
		Agency Staff	Agency Board/Commission/Committee	Independent Expert Panel	Legislature/Governor	
ANNUAL FUNDING	Less than \$1 million	Connecticut	Maine, Montana, Wyoming	Alabama, Delaware, Idaho, Michigan, Nevada, New Hampshire, New Jersey, New York, Vermont, West Virginia		14
	\$1 million - 9,999,999	South Carolina	Mississippi, Washington	Rhode Island		4
	Over \$10 million	California	Florida	Massachusetts	Ohio	4
	# of State Programs	3	6	12	1	22

Annual funding size does not seem to determine who makes the ranking/selection decision, as the larger programs are evenly distributed across the entity categories. The majority of the state programs in the smallest funding category use a panel of experts, independent from the agency, though selected and invited by the agency. Also known as peer panel review, this process is commonly used by arts agencies around the country because the depth of experience and expertise on the panel enables it to make better informed funding decisions.

I created four different categories of entities for this exercise, but there is an argument to be made for the first three to be combined into one. First, all three categories are either members or agents of the state agency in some form, whether it be as an advisory committee member or invited guest. Second, all three entities are most likely using the same guiding criteria, as established in the program guidelines by the state agency. A merging of categories would leave one program, Ohio, in a category all by itself. This is fitting, as Ohio truly has a unique process in which there is no official application process for capital funding. Rather, project applicants are responsible for approaching their area's representatives in the General Assembly, and if successful in securing support, are appropriated a specific amount of funds as a line item in the state's biennial capital improvements bill. In a reversal of the traditional appropriations process, the Ohio Facilities Commission reviews projects only after they have received funding

from the Legislature or Governor. This process clearly takes a large amount of authority away from the state agency, as project selection becomes the starting point, conducted by an outside party, rather than the end goal.

With the exception of Ohio's program, signs are good that state agencies can take control over the direction of project selection. Not only are the agencies crafting the framework and criteria that are used to judge the projects, but they are also quite close to the actual entity making the selection decision. If one believes that the state agencies are capable of good decision-making and establishing an appropriate framework, this is an encouraging sign that agencies will be allowed the latitude to support the development of good projects. There appear to be no barriers to implementing good project selection processes, as part of the reform movement within the cultural facilities development field, and achieving adequate levels of funding.

Final Funding Approval

Table 6 divides the final funding approval entity into three categories—SAA, Non-SAA state-level agency, and Legislature/Governor—arranged in order of diminishing SAA control, or conversely, increasing state oversight. I consider non-SAA state-level agencies to have greater state oversight because they are often created for a specific management or oversight role, or are assigned the administration of the facilities funding program because of a specific skill set that may not be present (or perceived to be present) at the SAA.

There is a direct relationship between annual funding size and the level of state oversight. In the smallest funding category, the preponderance of the final funding approval rests with the SAAs. This may be because these programs are considered to be of a manageable size for the arts agencies to oversee. Conversely, none of the programs in the largest funding category retain final funding approval within the SAA. This responsibility is either held by the Legislature itself, or by independent agencies such as Ohio's Cultural Facilities Commission that was created specifically to oversee its facilities funding program, or, in the case of Massachusetts, by MassDevelopment, the state's development finance agency. The extra layers of oversight may be justified by the much greater magnitude of the funding programs. The state's desire for added oversight

TABLE 6: Annual Funding vs Final Funding Approval Entity

		FINAL FUNDING APPROVAL ENTITY			# of State Programs
		SAA	Non-SAA state-level agency	Legislature/Governor	
ANNUAL FUNDING	Less than \$1 million	Alabama, Connecticut, Delaware, Idaho, Maine, Michigan, Nevada, New Hampshire, New York, Vermont	New Jersey, Wyoming	Montana	14
	\$1 million - 9,999,999	Mississippi	Rhode Island	South Carolina, Washington	4
	Over \$10 million		California, Massachusetts, Ohio	Florida	4
# of State Programs		13	5	4	22

also comes into play at the smaller funding level with the more complex (and more highly capitalized) endowment structures that are placed under the purview of independent bodies. Both New Jersey’s and Wyoming’s programs are administered by independent cultural trusts, and thus lie outside of the jurisdiction of their states’ art agencies.

From the perspective of the SAAs, this distinct lack of confidence in their judgment and abilities on the part of the state legislatures is troubling. The structure of the current relationships suggest that once a program is large enough to create an impact, funding discretion gets taken away. Removing discretionary power from the state agency diminishes their ability to make and implement good comprehensive planning decisions. Once political considerations enter the picture, they may create conflict with decisions made with the effect on the health of the organization and the sector in mind.

But perhaps the real question that one should ask is whether greater discretionary power rests with this particular decision maker, or at an earlier stage. For example, if one believes that the true power comes from the project selection decision, and that this stage is just a perfunctory stamp of approval, perhaps one should all take their cue from Washington’s and Florida’s programs in which they put together a package of vetted projects, and then let the “ultimate decision” rest with the Legislature. There appears to be an opportunity for a tradeoff—larger program size, in exchange for a lesser degree of oversight over that larger program—perhaps one well worth making.

Overall observations

In the first half of this chapter, I noted that the magnitude of the *individual* grant size (as opposed to total program funding) was an important metric in gauging program effectiveness in terms of ability to get projects built. It stands to reason that the more of these effectively-sized grants that can be awarded, the greater the program's impact. Thus, gross program size is important. Unfortunately, the first half of this chapter also showed that sources of funding can be fickle, and that there is a tradeoff between funding size and funding security. To achieve a program of significant size, one must be willing to partake in the political process and navigate the political desires of the Legislature and/or constituents.

The second half of this chapter explored this political process by relating different decision-making processes to level of funding. Table 5 revealed that, with the large exception of Ohio, state agencies have firm control over the project selection decision—the “who” and the “what”—and thus, the quality control component. However, with regards to funding approval—the “how much”—the larger the program, the smaller the amount of discretionary power for the state agency. At first glance, this appears to be a tradeoff worth making given the other dynamics in play. After all, given strong control over project selection, does the loss of funding approval even change the dynamics of the process? In short, yes. The consequences are much more far-reaching than loss of final funding approval responsibilities.

The state agency might appear to have complete freedom with the “who” and the “what,” but these two factors are tied to and ultimately impact the “how much.” Thus, if the funding decision is taken out of the agency's purview and placed in the political realm because of the program's funding size, by virtue of the connection between the two decisions, the project selection decision is necessarily politicized as well. The state agency can no longer operate on the basis that the project selection decision is all their own. Instead, they must think two steps ahead to how their decisions will affect the funding decision down the line. The ability to make and implement good decisions is one of the state agencies most important tools for effecting a change to the development practices of the sector. When this ability is compromised due to overarching political

considerations, the ability to reform and impact the sector may be reduced. The agency may become a part of the very system that it is working to transform.

Case study selection

Recognizing the nature of the beast is important, but how does one move forward effectively in a thoroughly politicized situation? One option is to opt out of the situation by looking for alternative funding sources and operating within the means of the resulting program. Program size is an important, but not exclusive, indicator of program effectiveness. Delaware's Arts Stabilization Program is second smallest in terms of annual funding, but ranks fourth in terms of ability to meet demand with funding support from the interest of an endowment. This is a particularly interesting case because the development of the endowment was the result of a public-private initiative and lies outside of the public realm. I will investigate the Delaware model for its ability to achieve some measure of discretionary independence from political considerations.

Another option is to completely embrace the political nature of the process and relinquish the project selection decision. Ohio's was the lone state program that did not have any measure of control over the project selection, given its unique program design of "backwards appropriation." Ohio also has one of the largest current program sizes, and since 1988, the General Assembly and Governor have appropriated \$420 million for nearly 250 projects. I will examine the Ohio program to assess the importance of the selection decision as seen through the consequences of its absence, and how a program can be optimized without it.

Delaware and Ohio are on the opposite extremes of the spectrum of level of political oversight. In each case, this extreme position was attained only with the sacrifice of program size or discretionary power, respectively. In the final case, I will look at a state program that is located in the middle of the spectrum to see whether an optimizing balance can be achieved between an adequate level of funding and an effective level of discretion. The NFF dual-pronged model requires both components, thus case study is an exploration of whether this model is a viable one to transform the sector's facility development process. If a rational decision-making process is a key component of the model, how does the model adapt in the face of a politically charged

process? One of the explicit goals of the Massachusetts Cultural Facilities Fund is to leverage knowledge and bring about change regarding facility decisions in the sector. I will analyze how this program, which was established with a clear vision and a clear process, holds up in the face of political realities.

CHAPTER 4: Delaware's Arts Stabilization Grant Program

Delaware's arts community saw that their capital needs were being provided on a one-off basis according to the whims of the Legislature, and sought to develop a program structure that would both reduce the level of political wrangling and provide a more guaranteed funding source for capital projects. Thus, they engaged in an upfront political exercise in order to establish an endowment structure that would provide both cash flow for the long term and a degree of discretionary independence from political considerations.

Background

In 1990, a working consortium consisting of Delaware's primary arts organizations, the Delaware Division of the Arts (DDOA), and DDOA's advisory body, the Delaware State Arts Council (DSAC), came together to discuss the financial future of the state's arts organizations. The basis for the talks was a concern for how the arts organizations, especially those on the edge of a financial crisis, could ensure their long term viability in the face of uncertain funding.

Delaware's small population meant that everybody knew everybody. This included a close relationship between the DDOA and the arts organizations, which involved a high level of candor and disclosure on the part of the arts organizations. Indeed, a few of the largest organizations in Delaware had come forward with rather severe economic problems. In addition, many of the corporate leaders in the state were on the boards of these large organizations, and the relationship between the corporate leaders and the local legislators was also close. In fact, the practice was for organizations to go directly to the Legislature for capital support in the form of line items in the state budget, since very few funders provided money for maintaining facilities (Van Blarcom 2005), this being among the less glamorous items on a fundraiser's wish list. However, with each influential board going in for its own individual request, competing for limited state funds, some were bound to win and some were bound to lose.

To reduce this competition between organizations, the DDOA wanted to take the responsibility of deciding which facilities would get capital funding out of the hands of

the State Legislature (Van Blarcom 2005). The organizations were invited to a meeting with the Secretary of State (to whom the agency reports) to make their case for special assistance. The Secretary of State at the time was a “very savvy political person” who suggested that the organizations work together to come up with a solution to the problem. In return, he promised his support and aid in getting the requested money from the Legislature (Larson 1997).

It was under these circumstances that eight of Delaware’s largest arts organizations—the Christina Cultural Arts Center, Delaware Art Museum, Delaware Symphony, Delaware Theatre Company, Grand Opera House, OperaDelaware, Rehoboth Art League, and Wilmington Music School—met to discuss their mutual problems and come up with a plan based on the long term management of their ongoing capital needs. Specifically, the plan identified total dollars needed for responsible capital planning by aggregating the projected budget needs of each organization (determined by an independent CPA). The elements of the final agreement are as follows:

1. A \$21.5 million endowment for the sole purpose of preserving facilities. The one-time nature of this gift that would address ongoing capital needs would appeal to donors and the Legislature, and also free up the arts organizations’ funds to focus on educational and programming needs;
2. 5% of all dollars raised would first be set aside for a special Arts Stabilization grant fund, to be administered by the DDOA, for emerging arts organizations around the state;
3. Up to an additional \$200,000 would be set aside for fundraising over a five or six year period;
4. Remaining dollars would go to the state’s eight primary arts organizations for one-time only deficit reduction, a revolving loan fund, and two endowments for facility-related needs;
5. Dollars could only be raised from corporations, foundations and government agencies and the eight primary arts organizations would hold off seeking building support from any one of the donors until its pledge had been paid (Van Blarcom 2005) This would protect individual donors as a resource for other fundraising campaigns by the institutions.

The eight organizations, collectively known as the Arts Consortium of Delaware (ArtCo), made a pitch to the Secretary of State and the State Legislature that resulted in a \$5 million commitment—\$1 million a year for five years—if it could be matched on a 2-for-1 basis. At around the same time the DuPont Company and the Longwood Foundation, major givers to building campaigns in the past, had taken an interest in helping cultural organizations plan for the long term care of their facilities, rather than managing from a crisis situation. The Longwood Foundation agreed to pledge \$1 million annually, if the same conditions set forth by the Legislature could be met each year for five years. The DuPont Company pledged an initial lead gift of \$1.25 million and began lining up corporate sponsors to meet the match.

The strategy was to create a partnership that connected the social, cultural and economic development of Delaware with the region's business, public, foundation and cultural communities and to make it clear that every sector of the partnership had an equal stake in its success (Van Blarcom 2005). Eventually, the match was made with the help of nearly 100 private- and public-sector contributors, including a \$750,000 3-for-1 Challenge Grant from the National Endowment for the Arts. The key to the fundraising success of the model was the aspect of leveraging—using the challenge concept to its full potential by creating an interlocking public-private structure of long term commitments. The donors were asked to make their pledges over five years, and to make them contingent on having the state maintain its \$1 million annual contribution. This was so that in the second year, if the State was looking at saying, 'You don't really need a million dollars, we'll give you \$750,000,' the response could be, 'Oh no, you can't do that, because then Dupont isn't going to give us their contribution.' (Larson 1997).

The beauty of ArtCo's success so far is that it has been built on a cooperative partnership that recognizes that the whole is greater than any one part. Success has been dependent upon everyone's involvement. ArtCo's organizational structure requires that it continue to function as a cooperative partnership if it is to be successful in fulfilling its ongoing obligation for oversight of the Fund (Larson 1997).

Delaware Division of the Arts (DDOA)

Arts Stabilization Grant Program

Information based on "Arts Stabilization Information and Instructions, Fiscal Year 2008"

GOALS

- Provide funding for needed maintenance, repairs, or renovations of existing facilities owned and operated by the nonprofit arts organization.
- Provide funding for the repair, upgrade, or replacement of capital equipment owned and operated by the nonprofit arts organization.

SCOPE OF COVERAGE

Examples of appropriate activities eligible for consideration include, but are not limited to:

- Facility modifications to address handicap accessibility issues
- HVAC replacement/repair
- Lighting/sound system upgrades
- Major plumbing, electrical renovations
- Structural (building) renovations
- Capital equipment expenses

ELIGIBILITY

To be eligible, applicants must:

- Have the promotion, presentation, production, and/or teaching of the arts as their primary purpose as outlined in their charter, incorporation papers, bylaws, and IRS nonprofit determination letter.
- Have a stable, functioning board of directors that meets at least quarterly.
- Be based and chartered in Delaware as a nonprofit organization: exempt from federal income tax under Section 501(c)(3) or 501(c)(4) or

509(a) of the Internal Revenue Code; and eligible to receive donations allowable as charitable contributions under Section 170(c) of the Internal Revenue Code of 1954.

MATCHING REQUIREMENT

No match is required. However, organizations that can provide some level of cash match may receive a more favorable review by the panel.

CRITERIA/PRIORITIES

The following criteria are utilized to evaluate each application:

- Extent to which Arts Stabilization funding will help the organization fulfill its artistic mission.
- Evidence of the need for Arts Stabilization funding.
- Inclusion of at least two competitive bids for the proposed project.
- Extent to which Arts Stabilization funding will contribute to the long term viability of the facility.
- Extent to which Arts Stabilization funding will improve delivery of services.
- Extent to which the budget for the project is complete and realistic.

REVIEW/DECISION MAKING PROCESS

- Once the DDOA receives the grant application, a staff member checks the application for completeness. DDOA reserves the right to request

additional financial or organizational information as needed.

- Copies of the application are then sent to members of a previously selected and trained grant review panel. To further evaluate the quality of an organization's programs, DDOA staff, DSAC members, grant panelists, or program evaluators may also visit the applicants and attend their events.
- Grant review panels meet to discuss the merits of the applications based on the criteria listed. A funding formula specific to the grant category is then applied. The results of the funding formula, along with grant applications and panel comments, are forwarded to DSAC for their review.
- DSAC members make their final funding recommendations at their annual June meeting. Although panel rankings, panel comments, and the funding formula are important, the DSAC is responsible for making all final funding recommendations. Applicants are notified of final funding decisions after July 1, following the DSAC funding meeting and passage of the state budget.

ANNUAL FUNDING

\$64,625 awarded to 6 grantees in FY 2008

Avg Grant

\$10,771

Grant Ceiling

None

DEMAND

of Applicants

7

\$ Amount Requested

\$80,609

FUNDING SOURCE

Interest from ArtCo Endowment (DDOA's share of endowment totaled about \$2,010,000 as of March 2007).

Analysis

The benefits of the ArtCo endowment structure

The ArtCo endowment provides a source of funding to the DDOA that removed the reliance on the State Legislature's annual appropriations process, once the corpus had been fully funded in 1996. Unlike other endowment funds that have been established for a specific purpose, whose coffers get raided as a source of funding for other unrelated purposes after an economic downturn (the Missouri Cultural Trust comes to mind), the ArtCo endowment is now off-limits to the State Legislature, as it is privately held and administered by the Delaware Community Fund (DCF). This means that in addition to obtaining a funding stream secured for the long term, DDOA has discretionary control over this funding, free from political considerations.

An additional bonus of the ArtCo structure is that because eight of the major arts organizations in the state are also provided for by this endowment, it means that they are not going to the DDOA in search of capital funds (and are in fact prohibited from applying for capital funds through the DDOA), reducing the competition for grant funding. This allows the Arts Stabilization grant program to truly serve the needs of smaller organizations and is one of the primary reasons that Delaware's Arts Stabilization program is able to meet the funding demands of its applicants so well.

The amount of interest available from the endowment varies from year to year (it has ranged from \$70,000-90,000 recently), due to volatilities in the stock market, as does the amount requested (\$60,000-70,000). However, there is no "use it or lose it" mentality with this funding structure because the unused portion of the annual entitlement stays in the account and continues to accrue interest (DDOA's portion of the endowment has approximately doubled over the course of its existence). This allows the panel to really look critically at the projects requesting funding, because there is no pressure to fund undeserving projects in order to maintain the size of the budget for the next year.

The goal of this program is to provide capital funding for facilities maintenance and renovations for selected organizations. The annual Arts Stabilization grants are predicated upon the assumption that organizations can project and plan for the capital expenditures that they need to undertake to maintain their long term stability. However, the flexibility of the endowment structure has also been used to create an emergency fund

to help organizations avert financial crisis due to unforeseen facilities disasters. The interest from the ArtCo endowment can only be drawn upon once a year, and as the DDOA has not been awarding their full annual entitlement in grants, it has been drawing the unspent funds to put into a sinking fund (reserve cash account) that can be accessed at any time. Traditionally, the available balance has hovered in the \$10,000 to \$20,000 range. This fund is also retained by DCF, though at a lower rate of return than the ArtCo endowment (Weagraff 2007).

This emergency fund has been used to keep organizations from the edge of financial crisis due to unexpected events of a capital nature. For example, last year, an art museum had a major boiler break down in the middle of winter. This was an unexpected catastrophic incident in a fairly new facility, not a case of deferred maintenance, and the organization did not have cash on hand to pay for the required repairs. It received funding from the DDOA to address the problem in a timely manner, avoiding a lengthy closure, loss of revenue, and damage to the collection that would have been disastrous for the organization's financial health (Weagraff 2007).

Another positive benefit from the ArtCo structure is that it encourages high levels of collaboration amongst the member organizations. For example, a broad effort was established to develop a regional cultural tourism plan that included ArtCo members, the hotel industry and the area's major museums. Joint advocacy efforts were organized through a Cultural Arts Alliance to implement a communication network to better facilitate immediate responses to issues of mutual concern. More importantly, the structure encourages the member organizations to understand and care about the other organizations' actions, in order to reap the benefits through the endowment fund. These organizations truly have a more global sense of the sector, beyond their own organization. This holistic view is an important basis for combating the over-investment in capital projects in the arts.

Arts Stabilization grant program critiques

The DDOA is currently reassessing the review criteria of the Delaware Arts Stabilization fund. The issue of concern, and it is a critical one, is that this source of funding has become a crutch for some organizations, a substitution for long-range

planning, with some applicants applying for funding every year (Weagraff 2007). It is always for something different, perhaps a water heater one year, the roof the next, but they have almost become de facto ArtCo member organizations, by virtue of their annual draws. However, these organizations have not engaged in the long term planning exercise or the capital fundraising campaign that the original members participated in, thus lack the framework for the proper long term management of their facilities.

The fault lies in the review criteria that evaluate capital funding requests on whether they will support organizational operations, or improve the quality of services. This allows organizations to go in for one grant after another because they are not asked to take a holistic view of organizational health. The required due diligence is for the individual project, and not for the system as a whole. Also the criterion that focuses on the impact of the facility grant on the long term viability of the “facility” rather than the organization, only underscores the emphasis on the health of the building, which may be a very different issue from the health of the organization.

A revision of this aspect of the program criteria will be beneficial in changing organizations’ habits and promoting long term planning practices. However, because of the program’s restrictions against new construction activities, there is a larger audience that DDOA is not reaching—those engaging in new construction projects. This gap in outreach is mitigated somewhat by two factors in this particular situation. The first is that, again, Delaware is a small community, and it is likely that DDOA will know about any arts-related development plans that are proceeding. The second is that the Arts Stabilization grant program will probably catch these organizations down the line should there be any capital-related problems. However, this is far from the ideal situation, and puts DDOA in the reactive position of modifying bad behavior rather than building good habits at the outset. This is a word of warning to other programs that a restricted scope of eligible activities also restricts the audience that can be reached.

Should this program be replicated?

At first glance, ArtCo’s general principal—a reliance on investment income from a fixed endowment rather than an ongoing dependence on either public or private support—seems to be worthy of consideration for replication. There is evidence that the

Arts Stabilization fund is adequately meeting the demand for capital funds from its constituents, both in the number of applicants and funds requested, and the fact that the endowment has grown significantly over the years. However, the reason the model works in Delaware is because of the small size of the community. This is not the case in most states, and thus the primary institutions in most states would not find the interest proceeds from an endowment to satisfactorily meet their capital needs.

One important thing to recognize is that the Arts Stabilization program only addresses facilities maintenance and renovations, avoiding the large-scale budgets of new construction projects. In part, this restriction exists because the eight ArtCo member organizations all had existing facilities and were merely trying to figure out how to sustain them at the time that endowment's governing laws were being established (Salkin 2007). However, whether through expediency, or a strategic decision, limiting the scope of capital projects funded to maintenance and renovations is one way to manage limited funds. This seems to be a particularly appropriate use of public funds as the more utilitarian maintenance and renovation needs are a documented gap in private giving.

Can this program be replicated?

Over the years, there have been discussions about raising additional funds to expand ArtCo or to create an ArtCo2 to provide the same long term planning structure and support for newer organizations that have come of age and would benefit from an ongoing source for capital projects, but an earnest effort has yet to be launched. Partly this is because some of the original sources of funds are not available anymore. The NEA no longer offers Challenge Grants for this purpose, and the mergers and takeovers of many Delaware-based corporations have weakened the corporate giving environment (Salkin 2007). In addition, the current member organizations are protective of the existing structure, and wary of change (politics do not only exist in the Legislature). It is also important to note that the original eight organizations had a strong Wilmington presence (6 out of the 8 organizations are located in the greater Wilmington area), which appealed to the vast majority of corporations that also called Wilmington home. The newer organizations are more geographically disparate, and thus lack the political weight to rally the corporate community (Salkin 2007). If there is difficulty replicating the

model in the state that it was created in, given the size of Delaware and the relations-based nature of the endowment campaign, the ArtCo model would not be easy to replicate elsewhere.

Another issue that is raised through this model is the question of legislative oversight over a public program. While the endowment was appealing because of the one-time (or, in this case, five-time) nature of the public gift, by surrendering the power of the purse, the Legislature also gives up its oversight. It may be hard to get other state legislatures to contribute to an endowment fund over which they have no control.

Conclusion

The ArtCo endowment structure is beneficial to the DDOA in two primary and significant respects: it receives a guaranteed long term funding stream, and maintains discretionary power over those funds, free from political considerations. These benefits derive from DDOA's participation in a privately held (though publicly and privately funded) endowment, of which DDOA earned a share by facilitating connections between interested parties. However, while this endowment is adequate for the needs of this particular state's arts organizations at this point in time, it is important to recognize that the organizations are small in terms of number and scale of operation. Thus, this model yields a small, but consistent, funding stream that is successful in addressing many of the capital needs of the arts constituents in Delaware, though is unlikely to be applicable in those larger states that lack the close relationships between key parties that were so important in ArtCo's establishment. As I noted in Chapter 3, the maintenance of funding security and discretionary powers becomes much more challenging as program size grows.

In addition, Delaware's degree of freedom can be productive, but it can also be destructive if DDOA is not capable of making fair, informed, responsible decisions. For example, though it has been recognized as a problem to be dealt with, the Arts Stabilization program has been supporting a short-term approach to facilities management because it did not have an adequate process in place to screen this type of activity out, or to modify organizational behavior. This example of what can occur due to lack of accountability illustrates why the legislatures are so adamant about maintaining

oversight over the larger programs. It is true that there are no safeguards against DDOA leading the program astray.

Fortunately, in the larger picture, DDOA's role in the development of ArtCo reveals a fundamental philosophy that the whole is greater than the sum of its parts, and that there are benefits to long term planning and taking a holistic view of the sector. If the DDOA is able to use its discretionary freedoms to promote these practices, it could play a role in effecting a change in the sector's approach to capital planning and development.

CHAPTER 5: Ohio's Cultural Facilities Commission

Ohio's Cultural Facilities Commission is unique in its role as reviewer and overseer in the cultural facility development process, without discretionary powers over project selection or grant award size. In a reversal of the traditional funding cycle model, this decision occurs at the *beginning* of the process at the hands of the Legislature and/or Governor. Despite an apparent lack of control or authority over the facility development process, Ohio's program has managed a large (and ever-growing) portfolio of projects since its establishment and managed to influence the process, despite severe limitations.

Background

The Ohio Cultural Facilities Commission ("Commission") was established in 1988 as the Ohio Arts Facilities Commission, and as indicated by the name, the original focus was on traditional arts facilities. The Commission was initially convened to oversee the Riffe Center Theatres, housed together with state legislators' offices in the Vern Riffe Center for Government and the Arts in downtown Columbus. The Commission was also tasked with determining the need for a state performing arts center, which resulted in the 1995 opening of the Stanley J. Aronoff Center for the Performing Arts in Cincinnati. Over the years, responsibilities were increased by the General Assembly to include funding oversight for capital projects at science and technology museums, local historical facilities, and state historical sites in addition to performing arts facilities. In 1996, because of the Commission's positive experience with cultural and historical facilities, the General Assembly asked the Commission to begin working with local governments to provide for the construction of publicly-owned major and minor league professional sports facilities. The name initially changed to the Ohio Arts & Sports Facilities Commission, and finally to the Ohio Cultural Facilities Commission in 2004 to better fit the mission and scope.

Since 1988, \$420 million has been appropriated by the General Assembly and Governor for nearly 250 projects of various sizes and complexities, including \$125 million to sports facilities projects. The sports facilities are much larger projects on average, even with the statutory funding cap of 15% of construction costs. After

appropriation, all of these projects are then assigned to the Commission for review and oversight. The Commission's projects over the years are spread among 65 of 88 Ohio counties (Fox 2007).

Nuts and Bolts

There is no official application process for capital funding in Ohio. To be considered for funding, project proponents are responsible for approaching their area's representatives in the General Assembly. Projects that are successful in securing support are appropriated a specific amount of funds as a line item in the state's biennial capital improvements bill, enacted in even-numbered years by the General Assembly and Governor. The bill, which totaled \$1.77 billion for FYs 2007-2008 according to the Summary of the County Breakdown of H.B. 699, appropriates money for the acquisition, construction, equipment or renovation of buildings and facilities. While most of the money is devoted to state government, public school and university facilities, \$90-150 million is appropriated for "community capital projects", or, collectively, the earmarks from legislators and the Governor (this terminology does not exist in the bill, and the projects are scattered throughout). The earmarks assigned to the Commission in each biennial cycle total approximately \$40-60 million, including \$15 million directed towards sports facilities (Fox 2007)

At this point, projects are assigned to the Commission for *funding oversight* by the General Assembly and Governor. The Commission does not have discretionary control over decisions regarding capital funds, but assists communities and state officials in determining project eligibility *after* the line item approval. The Commission's role is to establish and implement operational policies and oversight mechanisms to ensure that the state resources entrusted to its care are spent properly. It protects state interests by verifying that each project has significant community support and a solid management plan.

The Commission had no full-time staff until 1993 when legislative leaders and the Governor realized that the state could add some structure, albeit *ex post*, to the existing earmarking process and, thus, put the arts facilities projects under the purview of an oversight committee (Fox 2007). As codified in the Ohio Revised Code, Chapter 3383,

once the General Assembly or Governor has specifically authorized the spending of money on, or made an appropriation for, the construction of the cultural project, state funding is still contingent on two requirements:

1. *The Commission has determined that there is a need for the cultural project.* The Commission has interpreted this demonstration of need as a business plan that describes how the facility will serve the community, how that demand is not already being met or cannot be met without the proposed project, and how the organization that is proposing the project will operate the facility in the black (Fox 2007).
2. *The Commission has determined that, as an indication of substantial regional support for the cultural project, the cultural organization has made provision satisfactory to the Commission, in its sole discretion, for local contributions amounting to not less than fifty per cent of the total state funding for the cultural project.* This matching requirement ensures that there are enough funds and resources to complete the project. In the case of a brand new facility, that is a significant amount of money that needs to be raised. However, if the project is a roof replacement, for example, the project sponsor is allowed to consider the value of the base building as a match, so the state may pay for the entire capital project.

Though some members of Legislature ask the Commission to review proposals pre-appropriation, the first Commission contact for a majority of the projects occurs after a successful appropriation request (i.e., after the line item has been approved in the budget). Commission staff analyze submittals to ensure the project meets standards set forth by the Ohio Revised Code, the capital bill, the Commission, and the bond issuer, as well as to determine how the state can best help in contributing to a successful project. Feedback from these analyses is sent to the project sponsor in the form of a “punch list” of items that need to be completed prior to an appearance before the Commission.

Eventually the vast majority of appropriated projects garner Commission approval and are eligible for funding. The Commission staff does not have the authority to reject a project, and the staff credo is, “Do not say ‘No,’ say ‘Yes, if...’” (Fox 2007). For some projects, Commission approval requires a long process with staff to satisfactorily meet

the standards set forth. For others, the local community may recognize that the appropriated money would be best served if moved to something else, and the project is withdrawn with the hopes that the money will be appropriated for a different project within the community.

Because most of the state's capital appropriations are financed through long term tax-exempt bonds, the Commission maintains a long term relationship with the project sponsor to provide for the continuing use of the facility for cultural purposes. The Commission enters into a Cooperative Use Agreement for the facility and site for at least 15 years (the term of the bond). To do so, project sponsors have to provide complete documentation that they own or have a long term lease on the site, and that nothing will prevent the operation of an Ohio cultural facility at that location⁴. If another organization owns the site, it has to provide that documentation. This fits in with the state's desire to protect their investment, matching the oversight period with the investment term.

⁴ This "cultural facility" designation includes any facility for the public presentation of visual and performing arts, museums for the presentation of science technology and transportation, local historical facilities, state historical facilities and facilities for education and training in the arts and design.

Ohio Cultural Facilities Commission

Information based on "Project Sponsor Resource Guide, January 2007"

GOALS

As the state's agent for overseeing capital funds for cultural, sports and historical facilities projects, the Commission's goals are to protect the state's financial investment and to provide expertise to help projects succeed.

SCOPE OF COVERAGE

By law, "cultural facilities" include facilities for the public presentation of visual and performing arts, museums for the presentation of science technology and transportation, local historical facilities, state historical facilities and facilities for education and training in the arts and design. "Sports facilities" means all or a portion of a stadium, arena, tennis facility, or motorsports complex. Examples of eligible projects include new construction, renovations, restorations, expansions, exhibits and planning/feasibility studies.

ELIGIBILITY

Only 501(c)(3) organizations incorporated in Ohio and local Ohio governments (usually a city or county government) may receive funding from the Commission.

MATCHING REQUIREMENT

At a minimum, the local match must be equal to \$1 for every \$2 of funding provided by the state. (Typically, the local matches are much higher than the minimum.) The match must be in funds

that will be used for the current improvements project, and depending on the project's circumstances, may be satisfied by the following:

- Certification of cash on hand or in a capital fund account. (If funds in an endowment are used as the match, the principal must be invested, and only the annual earnings used);
- Written fundraising pledge letters or pledge cards signed by donors to the capital campaign;
- Documentation that local or federal grants have been fully approved for the project, and are not subject to other, still unmet, qualifications;
- Verification of the site value through property tax statement, appraisal, or a property insurance certificate stating the site's value.

For cultural facilities, the local match can include the value of the project site or facility, funds for construction or rehabilitation, and funds committed to an endowment for operation and maintenance of the facility.

CRITERIA/PRIORITIES

The General Assembly and Governor determine the Commission's agenda. All of the projects that are funded through the Commission are assigned to it in the state's biennial capital budgets. The Commission does not have discretionary control over decisions regarding capital funds.

REVIEW/DECISION MAKING PROCESS

Although each project is unique, Commission projects follow this general process:

1. A community or community organization decides it needs to expand or improve its facilities, or build a new facility.
2. The community or community organization approaches its legislators to request funding for a project in the biennial capital improvements bill.
3. The General Assembly and Governor appropriate funding for the community's project in the biennial capital improvements bill and assign it to the Commission for funding administration.
4. A Commission project manager contacts the project sponsor's staff and works with them to complete an on-line Project Registration Form, which provides the Commission with basic information about the project. Subsequently, the Commission project manager may schedule a site visit with the organization to tour the facility and to discuss key aspects of the project with the project sponsor.
5. When the project sponsor is ready to move forward with the project, an on-line Project Detail Form is completed and other pertinent information is submitted, including detailed information about the project, the organization's financial statements and business plan, and property deed and title information.
6. Commission staff analyzes submittals on a quarterly basis. This entails preparatory work with the project sponsor representatives and staff analyses to ensure the project meets standards set forth by the Ohio Revised Code, the capital bill, the Commission, and the bond issuer, as well as to determine how the state can best help in contributing to a successful project. Feedback from these analyses is sent to the project sponsor in the form of a "punch list" of items that need to be completed prior to an appearance before the Commission.
7. The Commission meets on a quarterly basis to review and approve projects. Those projects that have successfully completed their punch-list items at least six to eight weeks prior to the meeting will be considered for placement on an upcoming Commission meeting agenda.
8. In parallel, the project sponsor works with the Commission project manager to prepare the necessary legal agreements.
9. Information regarding the project is presented to Commission members at the public meeting. Complex projects where significant design work and/or fundraising is involved may receive preliminary determination at the first Commission meeting, and then return to the Commission for approval to expend state funds prior to project construction. Simple projects typically receive all necessary findings and the authorization to expend state funds from the Commission at a single meeting. During the course of one or more meetings, the Commission takes action on resolutions that:
 - a. Determine the need for the project;
 - b. Ensure that there is substantial regional support (in the form of matching

- resources) and adequate financing to cover the cost of the project;
 - c. Authorize the negotiation or execution of appropriate legal agreements;
 - d. Approve local construction administration (when applicable);
 - e. Authorize the expenditure of funds for the project.
10. Once all the standards are met, Commission approvals have been obtained, and Commission documents are executed, expenditure of funds may occur in one of two ways:
- a. Reimbursement directly to project sponsors on a pro-rated basis for projects that are approved for local construction administration.
 - b. Payment to the vendors/contractors directly for projects using the State Architect's Office for construction contract administration.
11. At the end of the state-funded construction phase(s), the state's involvement is recognized and the facility opens or reopens to the public.
12. The state continues to monitor the facility and the project sponsor's overall financial situation for the duration of the bond funding period; typically 15 years. This entails providing information to the Commission as changes occur, on an annual basis as required in the legal agreements or, as in the case of on-going fundraising, a quarterly basis.

ANNUAL FUNDING

\$55,296,000 awarded to 100 grantees for the 2006-2007 biennial capital improvements bill.

Avg Grant

\$552,960. Appropriation amounts in the most recent capital bill ranged from \$5,000 to \$5.5 million for cultural facilities.

Grant Ceiling

None

DEMAND

of Applicants

188

\$ Amount Requested

\$187,342,410

FUNDING SOURCE

Capital improvements bill line item, funded through either a bond issue or the General Revenue Fund.

Analysis

The benefits of the Commission process

The Ohio Cultural Facilities Commission oversees the significant amount of money that gets appropriated to cultural facilities in the state budget, both the active development projects and the growing portfolio of projects undertaken over the years. While there is no direct evidence to prove that the Ohio process sustains this high level of appropriation dollars, it is the only program of its kind (i.e., backwards appropriation/review), and consistently has one of the highest cultural facilities capital budgets among the nation's state-level programs. Kathy Fox, Executive Director of the Commission, could not easily explain this phenomenon when asked about it, but one can speculate about the reasons for such generosity.

For one, this is not a new program that the Legislature needs to find funding for, but rather, a minor restructuring of a longstanding political earmarking tradition. One could even argue that legislators are more likely to green-light a project because the structure of the Commission allows them to deflect charges of political pork in the name of public investment in the state's cultural infrastructure. Also, the Commission's statutory requirements to determine need and support for each project before funding is released allows the Legislature to be more free and easy with their appropriations, knowing that infeasible projects will either be modified or "back-burnered"—the elected representatives do not have to be the bad guys that say no.

In addition, when placed in the context of a \$1.77 billion capital bill, the \$40-60 million to support cultural facilities seems like a mere drop in the bucket. The expansion of the Commission's eligible scope has also created a broader base of constituent support. There are more organizations supporting the Commission and their work because of the wider range of interests that are addressed.

It is interesting to note that the cultural and sports facilities are the only projects in the state that undergo a rigorous post-appropriations review process and long term oversight. Whatever the basis for this decision, we know from Bruce Vladeck in Chapter 2 that cultural nonprofits tend to over-invest in capital projects, and that this tendency has been supported historically by governmental actions. The Commission should welcome the opportunity to manage and control these excesses.

Commission critiques

The obvious critique of this process is that the decision making process is occurring in the political realm, without any overall coordination or vision. The reasoning behind the expansion of the Commission's oversight scope is an example of how political the process really is. The broadening of the Commission's scope is most often prompted by the Legislature's desire to include a specific project, demanded by constituents, that would not qualify under the existing definition (Fox 2007).

The Commission realizes that having the political game be the first entry point into the process (versus a review process that establishes qualified projects then has to try to figure out how to fund them) is a bit backwards. With a new governor in office, Fox is in conversations with the Governor and the Legislature to encourage a pre-screening process, among other steps, to try to gain at least a little discretionary control over the direction of the program. Though she acknowledged that more projects get funded in Ohio and receive larger amounts than in other states, Fox points out that any time you are allocating funds, you are allocating disappointment. This (disappointment) still happens in OH, it is just a matter of who is doing it (legislators), and under what set of criteria (constituents' desires).

The Commission would like to have a more proactive role in shaping the state's cultural infrastructure, rather than just a reactionary response to the legislative body's desires. As the process currently exists, there is no unified rational basis for the distribution of targeted capital development dollars. For example, it is unlikely that attention is being paid to issues of geographic distribution, and much more common that the most influential organizations are achieving success in getting line item support from the Legislature.

Should this program be replicated?

While there are clear flaws in the current process, the review process that the Commission puts facilities projects through is a welcome addition to the traditional earmarking process, and appears to be a good intermediate step for those states without a dedicated cultural facilities funding program to have one established. Even if the

program were not to evolve past this stage, it would be a vast improvement over the political free-for-all that currently exists in many states.

Even those states that have established cultural facilities funding programs should take note of some of the Commission's practices. For example, the Commission should be commended for taking a long term view of their investment. While this has been thrust upon them, given the 15-year bond financing that funds these projects, it has enabled the analysis to be informed by a long term perspective that forces a more comprehensive approach to development. Even those programs that are free from the encumbrance of interest payments should adopt this long-range view in their analyses. However, there is one caveat about the long term oversight: this requires a great deal of manpower. The Commission's current staff of nine definitely feels the staffing constraint with their current portfolio. For example, there is a genuine desire to share lessons learned from past projects, but this can only be done on an ad hoc basis as project management staff try to link similar projects with each other through informal connections to promote cross-fertilization.

Can this program be replicated?

This program is a good candidate for replication given that the way that many states are currently funding cultural facilities is through legislative earmarks. Legislators would be hard-pressed to reject a continuation of the status quo on their part, with an additional layer of review in the name of fiscal responsibility to watch out for the state's investment.

Conclusion

The Ohio Cultural Facilities Commission is a textbook example of a capital funding program that is robustly funded and granted oversight responsibilities, but no discretionary power over selection or funding decisions. The tradeoff between program size and discretionary control, illuminated in Chapter 3, could not be clearer. In this case, the legislators' earmarking powers (and corresponding lack of discretionary control on the part of the Commission), combine with the Commission's management and oversight processes to create a situation in which the legislators can reap the glory, while resting

assured that the Commission will take care of the details, thus creating the generous flow of dollars. While the structure is not ideal, it is one that is easily replicable because of the high likelihood of political buy-in; it offers an intermediate step for those states without dedicated cultural facilities funds.

Ohio's program structure allows an examination of the importance of the selection and funding amount decisions in influencing the overall process. How does a program cope with the absence of this discretionary power? We already know that this program aspect is beneficial in terms of annual funding size, but how does it affect the ability of the agency to guide the cultural facility development process? Stripped of two major decision-making tools, the Commission is forced to work with organizations that have already garnered approval to produce projects that are viable and prudent in the long term. While there must be a certain level of resignation in working with the lot they've been given, the Commission staff wields a fair amount of procedural power. While the staff cannot say no, they can provide any number of hoops for the project to jump through before project approval can be granted. It is those magic words in the Ohio Revised Code, "to the satisfaction of the Commission," that allow the Commission to exert influence upon the process, despite the extensive direction provided by the Legislature. Thus, even though the Legislature hands off a slate of projects to the Commission, it also gives the agency the teeth that it needs to do their job. Ultimately, the Commission is able to apply a heavy hand in their guidance of the cultural facility development process because there is no funding decision to be wary of at the end of the day. Though the Legislature gets to kick off the process, the Commission gets the last word.

CHAPTER 6: Massachusetts' Cultural Facilities Fund

The Massachusetts Cultural Facilities Fund has a clear goal to leverage knowledge and bring about change regarding facility decisions in the arts and cultural sector. It is also currently one of the largest of the state-level cultural facilities funding programs. Given that good decision-making at all levels is a significant component of technical assistance, and given that political considerations enter the picture with a program of this size, a closer look at Massachusetts' program will give insight into what happens to those good decisions when presented with political realities.

Background

CFF Precedents

Two early precursors to the Cultural Facilities Fund (CFF) demonstrate an awareness and acceptance of the broad-based planning efforts that are required for a successful facilities project. The Massachusetts Cultural Facilities Project, a partnership with the Nonprofit Finance Fund (NFF), provided planning grants, workshops, and loans to cultural organizations. Also, the Endowment Grant Program for Cultural Organizations provided capital grants up to \$100,000 to organizations building up their endowments, often in connection with capital campaigns for new facilities (Abbott 2004). Both programs were eliminated in the severe cut to the Massachusetts Cultural Council's (MCC) budget in 2002. These initiatives were examples of the powerful financial and technical assistance combination that NFF proposed in its 1992 Cultural Facilities Study. The Endowment Grant Program did not offer a large amount of funding (less than \$7 million was distributed over the life of the program), but it was enough to bring organizations to the table. And once the organizations were at the table, they were led through a very rigorous application process that actually began with the question of whether an endowment was appropriate for the organization at that particular time in its development. This was a new line of thinking for these organizations that had previously been led to believe that an endowment would solve all of their problems, and for some it took three years of repeated application and failure to receive funding before they came to accept that this course of action was not a magical cure-all solution (Nelson 2007).

Most Recent Advocacy Efforts Leading to the CFF

After MCC funding was dramatically reduced in 2002, the road to the 2006 legislative authorization of the Cultural Facilities Fund (CFF) was not an easy one. The most recent round of advocacy efforts were launched with a 2003 Boston Foundation report, *Funding for Cultural Organizations in Boston and Nine Other Metropolitan Areas*, that found Boston area cultural organizations to be ill-served by a lack of local foundation and governmental funding, as compared with organizations in peer cities. The scarcity of these particular types of support primarily impacts organizations with budgets below \$5 million (and especially those under \$1.5 million), or about 97% of Boston area cultural organizations, which cannot depend on the generous individual donations that primarily go to larger organizations. The report not only confirmed the suspected presence of this funding gap, but also provided evidence that Boston's support was inferior in comparison with peer cities within the sample. This report made a case for the establishment of a state-level grants program to fill a critical funding gap in order to promote the long term viability of the sector, and to stay competitive with peer cities.

Building upon this argument, and recognizing the importance of Greater Boston's cultural nonprofits to the region, The Boston Foundation, convened a Cultural Task Force to develop a common agenda for investing in the state's nonprofit cultural sector. The result was a 2004 report, *Culture is Our Common Wealth*, that recommended significant sustained investment in cultural facilities through a state-supported grants program that provides funds for maintenance, improvements, and new construction.

This high priority recommendation was based upon two central claims. The first was that facilities have a major impact on all aspects of the work of cultural nonprofits. However, the Task Force appeared to be of two minds regarding the type of impact the facilities have, positive or negative, in their subsequent recommendations for cultural facility development. On the one hand, they advocated for laws and policies that support the development or adaptive reuse of cultural buildings, encouraging more facility development. On the other hand, they discussed how facilities are expensive to build and maintain, advising a thorough planning process and the adoption of cautionary measures such as the establishment of endowments for buildings; they were trying to apply the brakes in the midst of a cultural building boom. These two points of view do not

necessarily conflict—both allow for facility development, given careful planning and consideration—but they do imply different intentions for the direction of the sector.

The laws and policies proposed in the report could address the aspects of facility development that increase expenses and threaten the health of an organization. For example, increased operations expenses often destabilize the financial situation of an organization that has undertaken a capital project because they forget to account for these future expenses in their capital project planning. A policy could require renovation projects to increase the energy-efficiency of the building, thus reducing operating expenses, and addressing this destabilizing aspect of facilities development. However, the recommendations do not make these sorts of connections. Instead, they make it easier to develop (i.e., engage in risky behavior), without conditioning the expanded freedoms on a rigorous planning process that could mitigate unwarranted eagerness to build. They are giving the organizations the rope with which to hang themselves.

The second claim was that cultural facilities contribute significantly to the economic vitality and quality of life in our communities. (In this thesis I have chosen not to deal with cultural impact measurement issues, operating on the assumption that there is some positive value created by cultural facilities.) This second claim became the foundation for the request for new state funding, and is most likely the reason that the CFF was able to gain political traction with the State Legislature. Selling the arts on the basis of their social, economic or educational contributions may be considered gauche by some, but in the political arena, it is the way the game is played. If you want to appeal to the public sector, it has to be on the public sector's terms and since policy makers represent the public, they want to hear the public case. Policy makers can be persuaded with large economic impact numbers.⁵

The CFF was eventually authorized as a part of an economic stimulus package in July 2006, and was heralded as an important investment that would strengthen the state's ability to compete for tourists, guaranteeing continued growth and development of the

⁵ There is a large body of literature on the instrumental benefits of the arts, and the role of instrumentalizing the arts in making a case for financial support. My primary references on this topic were the 2004 RAND Monograph, *Gifts of the Muse: Reframing the Debate About the Benefits of the Arts*, and a transcript from the 2005 ArtsJournal Forum, "Is there a better case to be made for the arts?"

state as a world-class tourism destination. Thus, funding became justified by and inextricably linked with its economic contribution to tourism.

In its first year, the CFF was fully funded according to the statute at \$13 million. However, the magic words “subject to appropriation” came into play in the second year and there was major uncertainty around the level of funding, despite an overwhelming applicant pool (201 applicants and over \$80 million in funds requested) in the inaugural year. The state had a \$1.3 billion deficit, and was cutting spending across the board. Originally, the State Senate only authorized \$1.23 million for the CFF for FY 2008, though they eventually compromised with the State House’s \$10 million appropriation, ending up at \$5 million for the CFF, down 61.5% from the inaugural year.

Nuts and Bolts

The CFF’s enabling legislation, Chapter 23G, Section 42 of the General Laws of Massachusetts was quite specific in defining funding criteria and limits. MCC was then responsible for using that statutory framework to develop program guidelines that guided the application and review process, subject to the approval of the Governor-appointed Cultural Facilities Fund Advisory Committee and MassDevelopment, the state’s development finance agency. MCC would be responsible for administering the program and managing the panel review process. Based on the results of the panel review, MCC staff would make recommendations for funding to the Advisory Committee, then to the MassDevelopment Credit Committee, and finally to the MassDevelopment Board.

MCC’s peer panel review process produced about 100 capital projects and feasibility and technical assistance grants (almost half of all applicants) that panel members recommended to be funded. All of the recommended projects had met a minimum threshold requirement for benefit to tourism, as required in the statute, but there was some debate within the panels over this issue for about 25-30 of the recommended projects. Those projects that had questionable benefit to tourism were removed from consideration. Still, to fund all of the remaining eligible grants would have exceeded the program’s state appropriation for the year. Indeed, in an initial pass at funding the top-ranked projects at their requested funding the \$13 million only made it through the first 10-12 projects. Staff tried again, instituting a \$1 million cap per grant,

but this still did not produce results that reached satisfactorily deep into the rankings, by their standards. Next, they tried to apply a curve to the grant requests⁶ in addition to the \$1 million cap, but they still were not satisfied. And on and on. Because of the great demand for funding and the resulting budget constraints, MCC staff had to try to balance four primary factors to achieve an optimal funding allocation:

1. *Number of applicants funded.* This number has to be large enough to ensure geographic diversity (the Advisory Committee whose approval was required was intentionally geographically-balanced to provide equal access to the entire state), but also to include the organizations with the political weight that had fought to establish the CFF in the first place. Ideally, all the projects recommended by the panels would be funded.
2. *Maximum cap on funding.* While the guidelines allowed for requests up to \$5 million, they also clearly stated that with a \$13 million appropriation, the process was likely to be highly competitive, especially for larger grants. However, the cap cannot be too low so as to reduce the usefulness (or prestige) of the resulting grants. There is also an emotional impact to the number, and going too low may not be politically saleable.
3. *Degree of the curve.* The key number here is the bottom one. Dropping below 40% of the requested funding amount would render many of the projects infeasible. A quick back of the envelope assessment looked at how the reduced funding would affect the projects, and found that many of the projects involved phases that were not interdependent on one another so that work could still proceed with a reduced funding award.
4. *Political capital.* This comes in a couple forms. It could be from a legislator with a specific interest in one of the projects. Or, it could come from an organization in the cultural community with political clout. There is no way to quantify these pressures and how political capital is earned, but they cannot be ignored.

⁶ In this curve, the top-ranked project would receive a certain percentage of their request, the bottom-ranked project to be funded would receive a certain lower percentage of their request, and the rest of the grantees would receive a percentage of their request in between the two limits, according to their place in the rankings.

Massachusetts Cultural Council (MCC)

Cultural Facilities Fund

Information based on “The Massachusetts Cultural Facilities Fund: A Program of the Commonwealth of Massachusetts, 2007”

GOALS

The purpose of the Feasibility and Technical Assistance (FTA) Grant Program is to help managers and board members of cultural organizations get the objective information and analysis they need *before* they commit their organization’s energies and financial resources to a facilities project. The goal of the Capital Grant Program is to provide a portion of the resources necessary for the state’s cultural facilities to flourish. Through grants and advisory assistance, this program will promote the development of cultural facilities that are thoughtfully planned and developed, contribute to the cultural and economic lives of their communities and are supported by significant matching contributions from the private sector.

SCOPE OF COVERAGE

FTA: For expenses related to planning and feasibility assessment for a proposed eligible project.

Capital Grants: For the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvements or deferred maintenance of a cultural facility. All of the following would qualify for consideration under this description:

- New construction.
- Additions to an existing structure.
- Renovations or repairs to an existing structure.

ELIGIBILITY

- Nonprofit cultural organizations: 501 (c)(3) organizations that are primarily concerned with the arts, humanities, or interpretive sciences. The legislation includes but is not limited to museums, historic sites, zoos, aquariums, theaters, concert halls, exhibition spaces, classrooms, and auditoriums (“Cultural Facilities”).
- Municipalities that own cultural facilities – provided that the cultural facility is at least 50,000 square feet in size, and at least 50% devoted to cultural purposes.
- Public or private institutions of higher education that own cultural facilities – provided that the cultural facility provides service and open access to the community and the general public beyond their educational mission, and can demonstrate financial need.

MATCHING REQUIREMENT

Feasibility & Technical Assistance Grants:

Grants up to \$50,000 1-1 match

Capital Grants:

Grants under \$1,000,000 1-1 match

\$1,000,000 to \$2,499,999 2-1 match

\$2,500,000 to \$3,999,999 3-1 match

\$4,000,000 to \$5,000,000 4-1 match

CRITERIA/PRIORITIES

The Cultural Facilities Fund statute establishes six broad review criteria for FTA Grants:

- The project is an eligible project.
- There is a demonstrated need for the project.
- The project will benefit tourism in the local area.
- There is a demonstrated financial need for the grant.
- There is local support for the project.
- If undertaken, the project would qualify as eligible for consideration for a Capital Grant from the Cultural Facilities Fund.

The statute of the Cultural Facilities Fund establishes four broad review criteria for Capital Grants:

- There must be a demonstrated community need for the project.
- The project must be able to demonstrate that it will benefit tourism in the local area.
- There must be a demonstrated financial need for a grant.
- The project must be able to demonstrate local support.

REVIEW/DECISION MAKING PROCESS

The legislation that establishes this program calls for the CFF to be administered by MassDevelopment and the Massachusetts Cultural Council (MCC). It also calls for the creation of a new statewide CFF Advisory Committee. The roles of each of these bodies are described below.

- MCC is responsible for managing most aspects of the grant review process, through a contractual relationship with MassDevelopment. This includes proposing rules and guidelines for the program, offering

technical assistance to applicants, and managing the review process for grant applications.

- The Cultural Facilities Advisory Committee is responsible for advising MassDevelopment on the management and operation of the Fund. The Committee is comprised of nine members, six appointed by the Governor, plus the directors (or their designees) of MassDevelopment, MCC, and the Massachusetts Office of Travel and Tourism. The six members appointed by the Governor each represent different geographic regions of the state.
- MassDevelopment has authority on all matters of Fund administration, including final approval of all grant decisions. The legislation also authorizes MassDevelopment to issue bonds, to the extent feasible, for the purposes established in the legislation.

ANNUAL FUNDING

\$16,491,000 awarded to 54 grantees in Capital Grants and \$478,688 awarded to 17 grantees in Feasibility and Technical Assistance (FTA) Grants.

Avg Grant

\$305,389, ranging from \$22,000 to \$600,000, in Capital. \$28,158 for FTA

Grant Ceiling

The guidelines state a ceiling of \$5 million for Capital and \$50,000 for FTA. In practice, the Capital Grants were capped at \$600,000.

DEMAND

of Applicants

150 for Capital, 51 for FTA.

\$ Amount Requested

\$78,684,750 for Capital, \$1,673,042 for FTA

FUNDING SOURCE

The Legislature appropriated \$13 million for grants in the inaugural year of the fund, an amount equal to the funds previously appropriated annually for debt service payments for the rehabilitation, operation and maintenance of the Hynes convention center. In future years, the legislation calls for an annual allocation of \$13 million, as well as a second annual allocation (amount to be determined) from the Massachusetts Tourism Fund. The amount to be allocated from the Tourism Fund will depend on the rate of growth in state hotel-motel tax revenues. As a matter of procedure both allocations will be “*subject to appropriation*” on an annual basis by the Legislature and the Governor (i.e., funds must be secured each year through the regular state budget process). In fact, in the second annual round of

appropriations, the Legislature reduced the fund’s annual allocation to \$5 million. MCC, subject to approvals from the Advisory Commission and MassDevelopment, has opted to combine the first two allocations for the inaugural grant cycle, with future appropriations occurring after the review and selections process.

Analysis

The benefits of the CFF process

The CFF guidelines were established with a clear vision in mind: the availability of funds would bring organizations to the table so that MCC could initiate a conversation on thinking about planning for a building at a holistic level and considering its organizational impacts. While their co-administrator, MassDevelopment, defined program success as the funding of projects with sound financial foundations, MCC would consider success to be achieved through responsible decision-making regarding facilities development (McDermott 2007). The intent of the CFF is that organizations will not only benefit from the awarding of grant funds (supporting both capital projects and planning and feasibility studies), but also from the application process and the questions that are asked of them. MCC offered an optional draft review period this year, and it was clear from the feedback sessions that the nature of some of the questions asked “rocked [the applicants’] world” (Nelson 2007). In addition, panel discussion comments will be available to the public to continue the education process, and MCC has plans to offer technical assistance based on needs that emerge through the application process. The program’s matching requirement also ensures that knowledge will be leveraged amongst funders; foundations and private funders will be exposed to the CFF’s framework for project evaluation as organizations seek matching funds for projects that have been developed to meet MCC’s new criteria. Results from this program can also be shared with local governments to educate planning departments about responsible cultural facility policy. Every step of the process is formulated to educate about and promote comprehensive planning ideas and practices.

In the scheme of things, \$13 million is not that much money when it comes to capital projects (after all, this amount could only fund 10% of the recommended grantees at their full requests this year). MCC realizes this, but also recognizes that it is enough of a lure to attract organizations to engage in the application process, as demonstrated by the overwhelming response in the inaugural funding cycle. Though future funding is not guaranteed, the hope is that the program is around for long enough to begin to change the prevailing approach to facility development in the sector.

Another metric for success from MCC's point of view is whether or not the Advisory Committee and MassDevelopment have confidence in MCC's administration of the program. MCC believes that their presentations of thorough supporting information and cohesive arguments around funding decisions will ensure that they will continue in the same administrative role next year. In this role, they are in control of the agenda for the program. However, though MCC implemented the awarding of grant funds on their own terms, it was always within the constraint of the appropriation that the Legislature had made.

CFF critiques

Because of these limits in the Legislature's appropriations, one critique is that the CFF is not big enough to be able to fund all the worthy projects at magnitudes that will necessarily get the projects built. Also, it will never be a large enough force to be able to *prevent* the poorly conceived big projects from getting built. Even if grants were awarded at \$5 million, the program's statutory ceiling, this source of funding would be just a drop in the bucket for the large high-profile capital projects. However, it will affect organizations with budgets under \$5 million for whom foundations and public sources are 80% of the contributed income (Nelson 2003).

Another critique has already been touched upon, and relates to the panel confusion surrounding the tourism contribution requirement. The statute goes further than it needs to in specifying which economic stimulus the program should be recognizing and rewarding. An obvious illustration of how this definition is too restrictive is the example of arts education projects. These projects are generally community-serving and not likely to qualify under the tourism terms of the statute, but few would question the benefit that these organizations bring to their community and the state. There is an opportunity for the Legislature to simplify the statute, which is not out of the realm of possibilities. For example, if certain legislators' pet projects did not get funded because of this restriction, it is quite possible that they would support a relaxing of the statutory requirements.

The last critique is the most important, though the hardest to tease out. On the surface, it appears that MCC cedes a great deal of its discretionary power to other

agencies and that the inverse funding level/state agency oversight relationship holds. MCC must go through multiple levels of approval once they have presented their staff recommendations for funding, and MassDevelopment has the final funding approval power. However, MCC actually appears to have a large degree of freedom when one looks at the results. No changes were made to MCC's original recommendations in the three subsequent approval processes, so one could claim that the decision-making power actually rests with the agency. While it is true that MCC's recommendations were ultimately implemented, it is crucial to realize that the selections and choices that they made were indeed politically charged. No special exceptions were made, but the decision-making framework did include and was colored by acknowledgement of the desires of those in the legislative and cultural communities. This was necessary, given the nature of annual legislative appropriations and the existing relationships between arts and cultural organizations and the SAA. Let me be clear that the critique I am making is not that MCC made politically influenced choices, but rather that the program design necessitates that those choices be made in order to facilitate program funding.

Should this program be replicated?

The CFF seems to be managing the balancing act between effectively leveraging knowledge to bring about change regarding facility decisions in the sector and being adequately funded (at least in comparison with other states). The comprehensive nature of MCC's promotion of a holistic planning approach appears to be a layer that can and should be applied to any cultural facilities funding program if it is understood and embraced by the administering agency. If the CFF demonstrates an ability to maintain funding in the long term, it is most definitely a program that should be replicated, though the dramatic reduction in the program's appropriation in its second year, should give one pause.

Can this program be replicated?

Even in a state with a strong network for advocating for the arts, it was an uphill battle to pass the legislation and have the program funded. However, at this early stage, the question should be whether this program is sustainable rather than whether it can be

replicated. It is too soon to say whether the MCC has played the political game well enough for the CFF to remain viable and well-funded. As wonderful as it is for MCC to have certain discretionary freedoms, this also leaves the agency exposed to political backlash from the Legislature and/or the cultural community for their decisions; this potential backlash necessarily impacts MCC's original decision, as the agency must always be thinking two steps ahead of the process. MCC does gain some cover (and thus some freedom) from the fact that it does not officially have the final approval rights, and thus the political heat gets spread somewhat among MCC, the Advisory Committee, and MassDevelopment.

Conclusion

The Massachusetts Cultural Facilities Fund is an example of a capital funding program that is leveraging knowledge and bringing about change regarding facility decisions in the sector and receiving sizeable program funding (in comparison to other states). It is essentially the NFF dual-pronged model in action. There are two aspects to the technical assistance component. The first consists of the processes that are infused into every level of the funding process from application to award to educate and promote a new framework for decision-making regarding facility development in the sector. This piece seems to be universally applicable to any program structure in the name of promoting the use of comprehensive planning ideas and practices. The second consists of the good decisions made on the part of the state agency, in terms of project selection and funding awards, that ensure that projects only move forward when they are sound and viable for the long term. The status of this second piece is more uncertain because it comes into direct conflict with the political considerations that accompany any funding program of a significant size.

I clarified my final critique, above, to be a critique against the program design and not against the state agency. The reason for this is that I see a structure and a set of relationships that requires the state agency to make a choice between program funding size and good decisions. In this case, I believe that MCC has actually made the choice to not let their decisions be driven by political considerations, but I also believe that this is

the reason for the uncertainty surrounding its future funding.⁷ I originally chose this case to examine whether a sustainable balance could be achieved and maintained between an adequate level of funding and an effective level of discretionary power. It is too early to pass judgment, but I think that the level of uncertainty speaks to the difficulty of maintaining a successful balance.

This case has confirmed and refined the Chapter 3 finding that a program's funding size is inversely related to the state agency's discretionary power. The discretionary power in question is the true driver of the decision, not the mouthpiece. Thus, even if a state agency appears to be making a decision, if another party is influencing the choice, then the discretionary power lies with that other party. This is not to say that all political decisions will be bad decisions, or that there will never be any overlap, but in the event that the politically-driven decision stands in opposition to the state agency's preferred choice, the agency should take care that its action will affect its funding.

⁷ The Massachusetts State Legislature came to a decision about the \$5 million in FY 2008 funding in July 2007. Information about the grant awards for CFF's inaugural round will not be released until September 2007. Thus, the connection between grant decisions and legislative actions is not as immediate and reactive as it may appear in this discussion, though I do contend that it is a strong one.

CHAPTER 7: The Role of the State

Building success can refer to the success of the physical act of building, or it can refer to the process of creating a framework and a process that would lead to success in the industry. The duality of this phrase captures two-pronged approach that NFF proposed as a way to bring about change in the development process in the arts sector.

The problems with the existing approach to facility development in the arts and cultural sector are clear and have been clear for some time now. We even understand (though we do not condone) the forces and the parties that are feeding this rash of over-investment in capital projects. Repeated warnings have been issued, and yet the industry marches onwards in the same fashion. Why isn't the message getting through? It is not just that people are ignoring the warnings, though that is certainly occurring. The larger problem is that those that are trying to change the system are hamstrung by the politics of the situation and are unable to do enough to effect a change, given these constraints. The ability to make and implement good decisions is one of the state agencies' most important tools for effecting a change to the development practices of the sector. When this ability is compromised due to overarching political considerations that come with a well-funded program, the ability to reform and impact the sector is reduced. The simple fact is that agency discretionary control is inversely related to funding size, but both are vitally important to be effective. The NFF dual-pronged model is not viable as an agent of change because there must be a tradeoff and you cannot have one with the other. Thus, there are compromises and half efforts, and the tradition continues.

Chapter 3 established the inverse relationship between program funding size and discretionary control by the state agency. Delaware is on one end of this continuum, with a small program size but a great deal of discretionary control over these funds. Ohio anchors the other end, with one of the largest program budgets in the nation, but absolutely no discretionary power over project selection or funding decisions. Massachusetts lies somewhere between the two, engaged in a balancing act between a sizeable program and the appearance of some measure of discretionary control. The case studies for these three capital funding programs helped to illustrate the resulting constraints of each of these program designs. However, they also provided an

opportunity to see how each program coped with the limitations placed upon them, and whether there were options for dealing with their respective challenges.

Delaware is blessed with discretion, but constrained by program size, and that remains an insurmountable hurdle to increasing the reach and impact of the Arts Stabilization grant program. One of the mechanisms of the NFF model was that the money would bring organizations to the table, and then the technical assistance would help them use it well. Without the promise of the initial draw of the money, Delaware will not be able to reach outside of the small circle of organizations that currently partake in its reliable flow of funds, and thus cannot effect change throughout the sector. This is not to say that Delaware's program will not be valued by its constituents, long into the future, but the impact will remain localized.

Massachusetts does not give up either funding or discretionary power in an extreme manner, but then must somehow find balance between the two opposing forces. While there is technically a decision to be made between exerting one's own agenda and submitting to the political pressures, it is hardly a real choice when one alternative includes your existence and the other one does not. Massachusetts appears to be trapped in a dangerous middle ground in which neither its presence nor its impact are guaranteed.

Ohio is a textbook example of a capital funding program that is robustly funded and granted oversight responsibilities, but no discretionary power over selection or funding decisions. However, what it lacks in discretion, it makes up in oversight. Ultimately, the Commission is able to be hugely influential in their guidance of the cultural facility development process, and the resulting activity in the sector. While they do not have a choice in the projects they initially work with, they have control over the direction that the projects take, and this is perhaps more important. It appears that the discretion/funding exchange is a positive one, as long as the agency is given enough authority for true oversight.

In an earlier iteration of my recommendations, I proposed a model program for the states based on Massachusetts' current form, in which the agency would fund the political winners in order to guarantee a healthy stream of funding, i.e., surrender to the political will. In conjunction with this, the program would be able to continue all the less explicit educational and technical assistance activities that currently pervade their process

and that will slowly change the decision-making. In this way, the agency could continue its slow reform of the sector, knowing that it would be around for the long-haul to be able to do this.

However, it seems as if you are going to go that far, why not go all the way to the extreme and follow Ohio's lead and relinquish that last fragment of discretionary ability altogether? After all, oversight is not just some weak alternative to fall back on. It actually may end up wielding more power in the course of the activity in the sector. It is the long term version of discretion. In addition, while it may be beneficial for existing programs to embrace aspects of Ohio's program, it is definitely a route for those states without existing states to formalize their earmarking processes and bring a long term framework into the process.

Ultimately, states do have a role to play in the cultural facility development process, though it is one that is formalized for few states in a meaningful way today. Building success in both senses of the phrase is attainable, though not through the program design in which it was originally intended. Ironically, embracing the longstanding political tool of earmarking relieves the political pressure to a degree that an agency can concentrate on being an effective agent of change in the system.

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