

August 28, 2020

Matthew Gress
Director, Governor's Office of Strategic Planning and Budgeting
Executive Tower, 1700 West Washington Street, 6th Floor
Phoenix, AZ 85007

Dear Director Gress:

The Arizona Commission on the Arts submits the following budget request while gratefully acknowledging the \$2 million recently appropriated from the state's Crisis Contingency and Safety Net Fund.

By making this relief allocation in the midst of the COVID-19 crisis, Governor Ducey made a strong statement about the value of Arizona's arts sector and its important role in unleashing our state's potential, given the sector's wealth of positive outcomes on community and economic resilience, lifelong learning, and individual ingenuity. This relief investment is making its way to rural, urban, and suburban Arizona communities, supporting creative sector entities and workers in a time of unprecedented need.

MANDATE

The Arts Commission staff and Governor-appointed commissioners recognize the tremendous challenges facing the creative sector as a result of the COVID-19 pandemic, as well as the sector's central role in community prosperity, safety, health, and resilience—and are redoubling their commitment to statewide service in alignment with the agency's establishing mandate:

To stimulate and encourage the study and presentation of the arts, and public interest and participation therein, to meet the needs and aspirations of persons in all parts of the state.

PROPOSAL

In acknowledgement of the COVID-19 crisis and its long-term effects on the creative sector, the Arts Commission formally requests an allocation of \$5 million in FY2022, and requests that this allocation be positioned within any fund source as ongoing. Respectfully acknowledging that the state must consider myriad factors when developing a budget, and that no funding allocations are considered truly permanent.

Five factors form the basis for this Funding Issue:

1. *Crisis: the need for arts-based investment has never been greater*

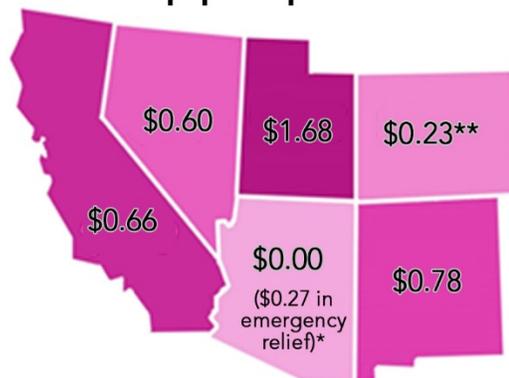
It is difficult to effectively quantify the devastating effects of the COVID-19 pandemic on the creative sector, as the crisis is ongoing and the effects likely to be drawn out over a long period of time. Thus far, as data is aggregated and published, the negative impact is massive and unprecedented, due to facilities closures, event cancellations, and the inability of many creative sector businesses to conduct their work or assemble audiences safely in alignment with physical distancing requirements.

Published in August 2020 by the Metropolitan Policy Program at Brookings, "[Lost Art: Measuring COVID-19's devastating impact on America's creative economy](#)," estimated that between April and July 2020, Arizona's creative sector lost 46,948 jobs, with aggregated revenue loss of \$170+ million.

To preserve creative sector jobs and the sector’s vital power related to community and economic resilience, lifelong learning, and individual ingenuity, increased support is warranted.

Indeed, before the crisis, the Arts Commission was experiencing significant increases in applicants across its grants and programs (a 300% increase in FY2019), driven in part by the agency’s efforts to simplify grant processes for smaller organizations and make processes more accessible to organizations operating in rural and remote communities.

FY2021 Per Capita Legislative Appropriations: Arts



**Does not include \$50+ million annual funding generated by Scientific and Cultural Facilities District tax initiative, supporting 7 counties.

*Other states' emergency relief not listed.

A \$5 million annual appropriation would raise Arizona’s annual per capita investment to \$0.68.

In all, the demand for grant support has never been greater, and we are requesting an ongoing funding allocation commensurate with this demand.

Finally, Arizona currently trails its neighbor states in per capita legislative allocations for the arts. A legislative allocation of \$5 million would bring Arizona’s annual per capita arts investment to \$0.68 per resident, from its current per capita investment of \$0.27.

2. Arizonans deserve long-term business planning from state agencies

Though the agency greatly appreciates funding allocations derived from the State’s Rainy Day Fund interest, the General Fund, and the Crisis Contingency and Safety Net Fund over the last several years, the positioning of each of these allocations as discrete one-time appropriations has restricted the agency’s ability to engage in robust future-focused business planning.

The primary reason is that there is a vast difference between an Arts Commission budget that includes a legislative allocation and one that does not; with profound effects on the scope, size, and priorities governing service delivery, operations, and partnerships. The Arts Commission is proud of its capacity to lead innovative planning processes and the meticulous design of its services, and recognizes that more certainty related to “the upcoming fiscal year” could strengthen the agency’s strategic enterprise.

3. Uncertainty in Arts Commission funding puts private funding at risk

As directed by authorizers in the Governor’s Office, the Arts Commission has made private partnerships and fundraising a core priority for its leadership. This led to a reimagining of processes and systems, as well as a significant shift in internal labor allocations.

The agency seized this opportunity and found much fundraising success by leveraging the strength of its programs and statewide network. While on average, 5% of the agency’s annual budget is comprised of private monies, the Arts Commission has earned \$1.25+ million in private grants over five fiscal years.

The relationships we've built with local and national private partners are of great value and require ongoing cultivation. These private funding partners routinely communicate that they are not comfortable committing to multi-year grants for the Arts Commission because of the uncertainty of agency funding from year to year, as they know the agency's capacity could radically change depending on budget outcomes.

With more certainty, we believe the agency's public-private partnerships could deepen and expand, at a time when intensified funding support is urgently needed.

4. Arts Trust Fund receipts are volatile

Annual receipts from the Arts Trust Fund, as established in 1989 and composed of revenues derived from Corporation Commission filing fees, have decreased by 27% since FY2011, with a -12% change from FY2018 to FY2019.

Arts Commission leadership continues to engage in a rigorous trends analysis and dialogue with the Corporation Commission to understand the reasons and realities driving these changes. The Corporation Commission's FY2019 fee-collection system transition was almost certainly partially to blame for the most recent steep decline in revenue, but the Corporation Commission maintains the larger trend is likely to hold as fewer Arizona businesses establish themselves as corporations. As a result, the Arts Commission continues to reforecast/decrease its annual Arts Trust Fund revenue projections. Combined with the effects of COVID-19 on local businesses and other factors listed previously, diminished Arts Trust Fund revenue is a key issue driving the request for an increased legislative allocation.

5. \$5 million would allow for continuation and expansion of creative investments across the state

Recent allocations have allowed the Arts Commission to intentionally expand the geographic reach of investments to critically underfunded communities—and grantees across the state recognize and are rallying behind the investments made by Governor Ducey and state legislative leaders. The Arts Commission staff and Governor-appointed commissioners wish to sustain this focus, and would apply \$5 million to grantmaking and direct services, with no new agency FTEs required.

ALTERNATIVES CONSIDERED

As stated, Arts Commission leadership is actively engaged in local and national fundraising. These partnerships are exceedingly productive in the context of mutually-beneficial provision of services, but rarely, anywhere in the country, do private foundations provide funding to public agencies for grantmaking.

The primary reason being that private funders could offer grants directly if they desired, and often do not make grants to a multiplicity of diverse recipients. Indeed, Arizona's major foundation-funders of arts activities generally fund a cohort of approximately twenty organizations, with all but one located in the Phoenix and Tucson metro areas.

In comparison, through its rigorous community review process, the Arizona Commission on the Arts provides seed money supporting hundreds of arts-based activities in towns large and small, with organizations large and small—each investment stimulating local economies, supporting lifelong education, and serving Arizona residents in alignment with the Arts Commission's public-benefit mandate.

In terms of other alternatives to an annual appropriation, many other states and regions have developed dedicated, ongoing public funding streams to support the arts, often through taxes, fees, or voter-approved initiatives. At this time, to offer stability in the view of private partners, to provide critical support to a sector in crisis, and to advance creative-sector output across the state, an increase in annual allocation to the Arts Commission seems most prudent.

IMPACT OF NOT FUNDING

Without a legislative allocation, the Arts Commission would radically contract grantmaking and services. Absent the \$2 million in relief allocated in FY2021, for example, available grant funding would have been reduced by 75% from the previous year, and a similar reduction would be required looking forward.

Additionally, the Arts Commission competes for annual federal funding via the National Endowment for the Arts, as part of the State Partnership Grant program. State Partnership Grants require a state funding match; thus if state funding decreases below the match threshold, federal funding to Arizona decreases in equal proportion.

In short, the impact of a reduced or eliminated legislative allocation is that the community gains supplied by Governor Ducey's and state legislative leaders' actions on behalf of the arts could be lost, and that pandemic-era losses in communities across the state would be amplified. These losses negatively affect the sustainability of other agency services as well, including some activities funded by private partnerships, as significant reductions would have to be made across agency operational expenditure areas.

CONCLUSION

As you may know, the Arts Commission sustained sizable funding decreases during the long recession. The agency's \$2.1 million General Fund appropriation was eliminated, the \$20 million ArtShare Endowment was swept, and the agency's remaining fund source, the Arts Trust Fund, endured several reductions.

From FY2014 to FY2021, the Arts Commission received between \$1 and \$2 million (apart from FY2016, when \$0 was allocated), appropriated as discrete one-time funding. The Arts Commission budget has not to date returned to pre-recession funding levels.

A \$5 million allocation for FY2022 would be applied to grantmaking and direct services and would empower the Arts Commission to provide critical support, deepen statewide arts investments, and maintain strategic professional development in alignment with Governor Ducey's stated goals: to maximize state resources in support of quality educational opportunities, resilient state and local economies, and thriving people and places, while remaining focused on increased efficacy and transparency in programs and services.

We look forward to discussing the merits of this proposal and providing further detail to aid in consideration.



Jaime Dempsey, Executive Director
Arizona Commission on the Arts