

Arts, Culture, and Oregon's Economy

An Analysis of the Economic Contributions and Fiscal Impacts of The Oregon Cultural Trust and its Eligible Cultural Nonprofits



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ECONNorthwest
ECONOMICS • FINANCE • PLANNING

Eugene

99 W. 10th Avenue, Suite 400
Eugene, OR 97401
541.687.0051

Portland

222 SW Columbia, Suite 1600
Portland, OR 97201
503.222.6060

www.econw.com

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EXECUTIVE SUMMARY

In 2001, the Oregon Legislature passed HB2923 and created the funding mechanisms of the Oregon Cultural Trust in order:

“to enhance the lives of Oregonians by implementing a sustainable public-private integrated cultural funding program that will support, stabilize and protect Oregon culture; the humanities, heritage and the arts. The Trust will expand public awareness of, quality of, access to and use of culture in Oregon.”¹

To generate the funding to support this goal, HB2923 created the cultural trust tax credit, the culture license plate, and allowed the state to transfer assets to the trust. The cultural trust tax credit is currently scheduled to sunset on January 1, 2014, and will be reviewed during the 2013 legislative session.

In light of this, the Oregon Cultural Advocacy Coalition asked ECONorthwest to conduct an analysis of the arts and culture community (which we will call the “cultural sector” hereafter) and prepare a report that:

- Describes the cultural sector in Oregon, including the eligible cultural nonprofits of the Oregon Cultural Trust;
- Describes the economic contributions of the cultural sector, in general, and the eligible cultural nonprofits of the Oregon Cultural Trust, in particular; and
- Assesses the efficacy of Oregon’s tax credit program that supports the Oregon Cultural Trust.

In brief, we emphasize the following key points:

(1) In 2011, the Oregon Cultural Trust’s 1,326 eligible cultural nonprofits directly generated an estimated \$580.5 million in sales, and employed 8,750 persons who received \$272.8 million in income. These direct contributions ripple through the economy. As such, the economic contributions of Oregon Cultural Trust eligible cultural nonprofits extend far beyond their own spending. Indeed, through additional supply-chain and consumption-driven spending, the total economic impacts associated with eligible cultural nonprofits amount to over \$1.2 billion in sales, including almost \$470 million in income and 14,900 jobs in 2011. **This economic activity generated an estimated \$57.2 million in tax and fee revenues for state and local governments.**

Table ES1. Summary of the Economic and Fiscal Contributions of Oregon Cultural Trust Eligible Cultural Nonprofits, 2011 (all dollars in millions)

Impact Measure	Direct	Secondary	Total
Output	\$580.5	\$664.3	\$1,244.8
Income	\$272.8	\$193.5	\$466.3
State and Local Taxes	\$19.6	\$37.6	\$57.2
Jobs	8,750	6,140	14,890

¹ Oregon Cultural Trust, “The Trust History” <http://www.culturaltrust.org/about/the-trust-history>

- (2) **As the preceding discussion indicates, spending by Oregon Cultural Trust eligible cultural nonprofits generates multiplier effects that benefit workers and business owners in every county and every sector of the Oregon economy.**
- \$1 million in sales by eligible cultural nonprofits generates another **\$1.1 million in sales** for other Oregon businesses.
 - Every 10 jobs at eligible cultural nonprofits is linked to **7 jobs** in other sectors of the Oregon economy.
 - \$1 million in state and local taxes paid by eligible cultural nonprofits is associated with another **\$1.9 million in taxes and fees** generated in other sectors.
- (3) **More broadly, over 19,000 Oregonians work in arts and culture occupations.** Oregon’s cultural sector employs people outside of the Cultural Trust and its eligible nonprofits. The full arts and culture sector includes workers in occupations ranging from dancers and photographers to architects and graphic designers. The sector includes The Portland Ballet and Rogue Valley Chorale but also Oregon Public Broadcasting and the University of Oregon Foundation, and it includes art galleries and theaters but also touches antique dealers and humanities research. In sum, over 19,000 Oregonians’ occupations indicate they are directly involved in the production of art and culture. For context, more workers work in arts and culture occupations than work as high school teachers (19,000 vs. 10,000), and nearly as many people work in arts and culture occupations as work in the entire legal sector (19,000 vs. 22,000).
- (4) **The cultural sector contributes to Oregon’s ability to grow over the long run.** Many economists argue that arts and culture help to boost regions capacity to grow over the long run by making individuals smarter, healthier, and more productive; by contributing to a desirable quality of life that helps to attract skilled, creative workers and firms; by helping to create a culture of creativity that fuels innovation; and by creating valuable social bonds and productive social norms. It can be difficult to prove these relationships, but outcomes in Oregon are consistent with these hypotheses. For instance, Oregon has a relatively large and active cultural sector (total employment of arts and culture workers ranks 13th among the 50 states), Oregon ranks highly in quality of life (one economist, using sophisticated economic tools, estimates that Oregon’s quality of life is 5th best in the U.S.),² and Oregon attracts a very large share of highly skilled migrants (e.g., one recent paper ranked Portland second in the nation in attracting and retaining young college-educated workers).³
- (5) **Arts and culture create goods, services, or experiences that have intrinsic private and public value.** Many economists believe that, “The most important impact of the

² This measure uses differences in housing prices and wages across place to infer what people are willing to pay to enjoy the amenities in particular location. As such, this measure of quality of life includes all local amenities – climate, culture, etc. Albouy, D., 2012. “Are big cities really bad places to live? Estimating quality of life across metropolitan areas.” <http://www-personal.umich.edu/~albouy/QOL/improvingqol.pdf>

³ Jurjevich, J. and G. Schrock, 2012. “Is Portland really the place where young people go to retire? Migration patterns of Portland’s young and college-educated, 1980-2010.” <http://mkn.research.pdx.edu/wp-content/uploads/2012/09/JurjevichSchrockMigrationReport1.pdf>

arts – and the main argument for their public support – is in their cultural or social significance.”⁴ That is, even if arts and culture were not a means to create jobs or boost long run economic growth, the sector would still be valuable and still deserve public support. People value arts and culture for their own sake, even those who seldom or never directly participate in them. This occurs because the cultural sector produces goods, services, and experiences that benefit the public at large. The public benefits of culture stem from the value people place on the pure existence of art and culture, from the value people place on having the option to experience arts and culture at some point (if they so choose), from the value people place on passing their culture, experience, and wisdom to future generations, from the value that people place on social cohesion and collective expression, and from the value people place on the prestige associated with sharing a community with renowned artists or cultural institutions.

- (6) **The cultural trust tax credit provides an effective means for the public to provide additional support to arts and culture consistent with the goals of HB2923.** Since its inception, 21,000 donors have contributed over \$28,000,000 to the Oregon Cultural Trust.⁵ Our analysis of the literature on public support for charities, the structure of the tax credit, and the financial performance of Oregon’s arts, humanities, and culture nonprofits before and after passage suggest that the cultural tax credit has succeeded in increasing funding for arts and culture from where it would have been without the tax credit. An assessment of special taxes in other states failed to uncover alternative means via which the state could generate *more* funding for arts and culture at a lower cost to the state treasury.

⁴ Bille, T. and G. G. Schulze, 2006. “Culture in Urban and Regional Development.” In *Handbook of the Economics of Art and Culture, Volume 1*.

⁵ Oregon Cultural Trust FY2011 Annual Report.

I. Our Assignment

In 2001, the Oregon Legislature passed HB2923 and created the funding mechanisms of the Oregon Cultural Trust. To generate the funding to support this goal, HB2923 created the cultural trust tax credit, the culture license plate, and allowed the state to transfer assets to the trust. The cultural trust tax credit is currently scheduled to sunset on January 1, 2014, and will be reviewed during the 2013 legislative session.

In light of this, the Oregon Cultural Advocacy Coalition asked ECONorthwest to conduct an analysis of the arts and culture community (which we will call the “cultural sector” hereafter) and prepare a report that:

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II. Description of Oregon’s Cultural Sector

A. What is the Cultural Sector?

In this report, we describe the contributions of Oregon’s cultural sector to Oregon’s economy. However, before we can describe its contributions, we must first define the cultural sector. In very simple terms, the cultural sector includes workers and organizations that produce goods and services that have artistic and cultural value or are the outcome of artistic or cultural expression.⁶ What does it mean for a good or service to have artistic or cultural value? Frequently, whether or not something constitutes art or culture lies in the eyes of the beholder, so a wide range of occupations or industries could qualify as part of the cultural sector. When people think of the cultural sector, they typically think of dancers, musicians, photographers, etc., however, they shouldn’t overlook architects, graphic designers, writers, historians, etc.

For purposes of this report, we reviewed the definitions used in previous reports that used economic data to describe the cultural sector and worked with Oregon Cultural Trust staff to establish a final set of industries and occupations.

Broadly, we categorize arts organization into the following categories:

- Councils, Agencies, and Associations
- Library and Parks Foundations
- Media
- Museums, Galleries, Zoos, and Other
- Performing Arts
- Schools
- Services

⁶ DeNatale, D. and G.H. Wassall, 2007. *The Creative Economy: A New Definition*. The New England Foundation for the Arts; McCain, R., 2006. “Defining Cultural and Artistic Goods.” in *Handbook of the Economics of Art and Culture, Volume 1*. Ed: V.A. Ginsburgh and D. Throsby, Elsevier.

- Foundations, Societies, and Commissions
- Other

All arts occupations fall into one of the following categories:

- Architecture and Engineering Occupations
- Life, Physical, and Social Science Occupations
- Education, Training, and Library Occupations
- Arts, Design, Entertainment, Sports, and Media Occupations
- Installation, Maintenance, and Repair Occupations
- Production Occupations

It's important to note that not all occupations in each of these categories are classified as an arts occupation. For a list of industries in the cultural sector see Table A-1 in Appendix A and for a list of occupations in the cultural sector see Table A-2 in Appendix A.

B. How Large is the Cultural Sector in Oregon?

Oregon has a relatively large cultural sector. In 2010⁷, nearly 19,000 Oregonians worked in culture occupations (this does not include occupations supported by the cultural sector such as a construction worker that helps build theater); this consisted of 0.50% of all workers in the state. This is the 13th highest percentage of all the states. Oregon also had 3 of the top 35 metro areas in terms of arts employment, Eugene (0.60%, ranked 28th), Portland (0.58%, ranked 31st) and Medford (0.58%, ranked 32nd).

C. What is the Oregon Cultural Trust?

The Oregon Cultural Trust is a public-private fundraising and grant-making program. The Trust's original mission is:

“to enhance the lives of Oregonians by implementing a sustainable public-private integrated cultural funding program that will support, stabilize and protect Oregon culture; the humanities, heritage and the arts. The Trust will expand public awareness of, quality of, access to and use of culture in Oregon.”

In 2011, the Oregon Cultural Trust was associated with 1,326 eligible cultural nonprofits in Oregon. These eligible cultural nonprofits are shown, by type of organization, in Table 1. Performing artists, and performing arts groups and facilities represent the largest type of organization with 289 nonprofits, or 21.8 percent of the total Oregon Cultural Trust eligible cultural nonprofits. Involvement with the Oregon Cultural Trust, however, includes a wide variety of organizations, including societies and commission (259 nonprofits, 19.5 percent of total eligible cultural nonprofits); council, agencies, and associations (208 nonprofits, 15.7 percent); and library and parks foundations (149 nonprofits, 11.2 percent).

⁷ Our impact year is 2011. However, for these descriptive statistics we use the US Census Bureau's most recent data, the American Community Survey 2006-2010 5-Year sample.

Table 1. Oregon Cultural Trust Eligible Cultural Nonprofits, by Type of Organization, 2011

Type of Organization	Number of Eligible Cultural	% of All Eligible Cultural
Councils, Agencies, and Associations	208	15.7%
Library and Parks Foundations	149	11.2%
Media	21	1.6%
Museums, Galleries, Zoos, and Other	116	8.7%
Performing Arts	289	21.8%
Schools	60	4.5%
Services	93	7.0%
Foundations, Societies, and Commissions	259	19.5%
Other	131	9.9%
Total	1,326	100.0%

Source: Oregon Cultural Trust

Note: Classification by Type of Organization made by ECONorthwest using Oregon Cultural Trust "Institutional Type" codes.

As shown in Figure 1, Oregon Cultural Trust eligible cultural nonprofits are located in every Oregon county.

Figure 1. Geographic Density of Oregon Cultural Trust Eligible Cultural Nonprofits, 2011

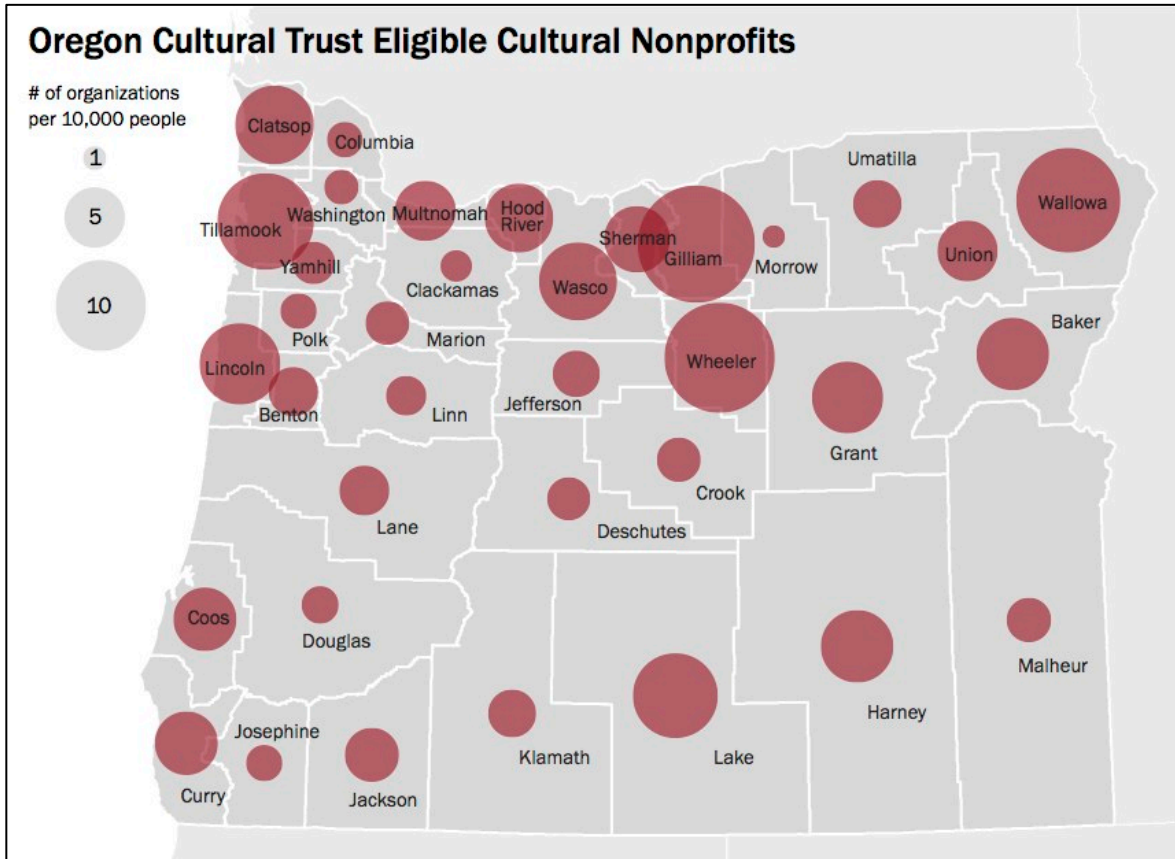


Table 2 shows how Oregon Cultural Trust eligible cultural nonprofits are distributed between urban and rural parts of Oregon. In 2011, 747 eligible cultural nonprofits (56.3 percent of all eligible cultural nonprofits) were located in urban areas, and 579 eligible cultural nonprofits (43.7 percent) were located in more rural parts of the state. After controlling for population differences, Oregon Cultural Trust eligible cultural nonprofits are well represented in rural Oregon. For example, in rural Oregon, there were approximately 3.8 eligible cultural nonprofits for every 10,000 persons. For comparison, there were 3.2 eligible cultural nonprofits for every 10,000 persons in Portland, Eugene, and Salem, combined. (Appendix Table A-3 shows Oregon Cultural Trust eligible cultural nonprofits by organization type of by county.)

“The Oregon Cultural Trust is an important collaborative tool for our rural communities to preserve our diverse cultural heritage, a shared heritage which defines us as people”
 - Stan Foster, PARC Resources

Table 2. Oregon Cultural Trust Eligible Cultural Nonprofits, by Region, 2011

Region	Total Eligible cultural nonprofits	% of All Eligible cultural nonprofits	Population	Eligible cultural nonprofits Per 10,000 Persons
Urban	747	56.3%	2,340,936	3.2
Rural	579	43.7%	1,530,923	3.8
Total	1,326	100.0%	3,871,859	3.4

Sources: Data from Cultural Trust of Oregon and County populations based on 2011 population estimates from the US Census Bureau, see <http://quickfacts.census.gov/qfd/states/41000.html>

III. Contribution of the Cultural Sector to Oregon's Prosperity

In this section, we describe the economic contribution of the cultural sector to regional wellbeing (or regional economic health). That is, we assess how the cultural sector may make us richer, happier, or more satisfied with our lives and communities, and we explore how our region might be poorer or worse off in its absence.

Researchers in a wide variety of fields have theorized and investigated the benefits of arts and culture to individuals and society. The list of potential benefits they have investigated is long and varied. Americans for the Arts aptly summarized the potential benefits created by arts and culture, which include:⁸

- Aesthetics: The arts create beauty and preserve it as part of culture
- Creativity: The arts encourage creativity, a critical skill in a dynamic world
- Expression: Artistic work lets us communicate our interests and visions
- Identity: Arts goods, services, and experiences help define our culture
- Innovation: The arts are sources of new ideas, futures, concepts, and connections
- Preservation: Arts and culture keep our collective memories intact
- Prosperity: The arts create millions of jobs and enhance economic health
- Skills: Arts aptitudes and techniques are needed in all sectors of society and work
- Social Capital: We enjoy the arts together, across races, generations, and places

These benefits may be tied to direct participation in cultural activities, to audience participation, or simply to the presence of arts and culture and arts and culture organizations and institutions in the community.

It is useful to divide the potential benefits associated with arts and culture along two dimensions. First, benefits may be intrinsic or instrumental. When people discuss the contribution of culture to society and the economy, they tend to focus on instrumental benefits – or the ways in which culture provide a means to achieve some non-arts related benefit (e.g., faster economic growth, more jobs, higher test scores, better health); however, many economists and members of the cultural community have argued that focusing exclusively on culture as a means to some other benefits ignores the value intrinsic to cultural experience. The intrinsic values created by culture (e.g., pleasure,

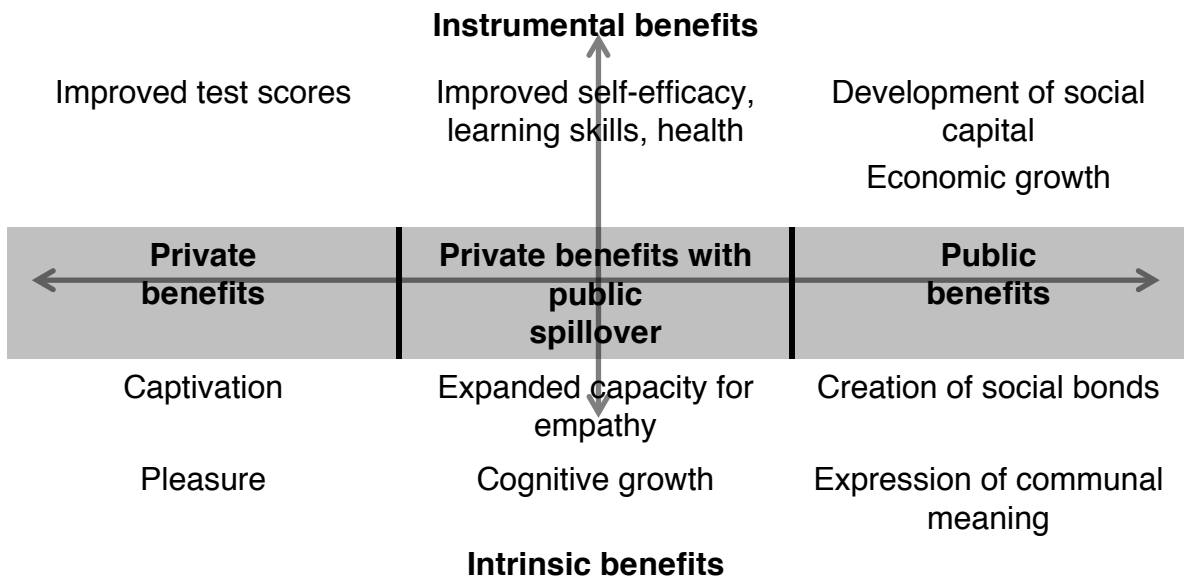
⁸ http://www.americansforthearts.org/pdf/information_services/art_index/NAI_report_w_cover_opt.pdf

expanded capacity for empathy, the creation of social bonds, expressions of communal meaning – things that we would value even if they could not be easily traced to some other benefit like economic growth) may equal or exceed their instrumental values.⁹ While an apple a day may keep the doctor away (an instrumental benefit), people enjoy the taste of apples (an intrinsic benefit) and people would still eat and enjoy apples even if eating apples had no effect on ones probability of visiting a doctor. When considering the contribution of culture to the community, we want to consider both instrumental and intrinsic benefits.

Second, the benefits created by arts and culture may be private or public. Private benefits are enjoyed directly by the individuals participating or experiencing art, while public benefits are those which spread throughout society and benefit even those who do not directly participate in or experience art.

Figure 2, drawn from the book *Gifts of the Muse: Reframing the Debate About the Benefits of the Arts*, helps clarify this two dimensional framework for thinking about the potential benefits of arts and culture.¹⁰ The top part of the figure presents instrumental benefits – benefits where culture is a means to some other ends. The bottom part presents intrinsic benefits – things people value for their own sake. The left side of the figure describes benefits that are primarily private. The middle describes private benefits which can spillover to the public. The right side describes benefits which are primarily public.

Figure 2. Framework for Understanding the Benefit of culture



Source: RAND

⁹ McCarthy, K, E. Ondaatje, L. Zakaras, and A. Brooks, 2004. *Gifts of the Muse: Reframing the Debate About the Benefits of the Arts*. Santa Monica, CA: The RAND Corporation; Frey, B.S., 2005. "What values should county in the arts? The tension between economic effects and cultural value." [IEW - Working Papers](#) ieuw253, Institute for Empirical Research in Economics - University of Zurich; Bille, T. and G. G. Schulze, 2006. "Culture in Urban and Regional Development." In *Handbook of the Economics of Art and Culture, Volume 1*.

¹⁰ McCarthy et al 2004.

If the benefits of arts and culture were exclusively private (i.e., only those on the left side of the figure were significant), public support of culture would be largely unnecessary. The market would supply the appropriate quantity of arts and culture, and government intervention would only be required if access to culture was deemed inequitable by the public. However, if arts and culture generate significant public benefits (the benefits in the middle and right side of the figure), then the market will not generate the optimal outcome. Too little art and culture will be produced, and public support, like that embodied in the Oregon Cultural Trust, may be justified.

In the remainder of this section, we examine how arts and culture may contribute to Oregon's economy. Specifically, we focus on the three broad categories of benefits typically examined in the economics literature:

- short run impact of arts and culture on jobs, incomes, and tax revenue (so called economic impacts),
- long run effect of arts and culture on the regional ability to grow, and
- intrinsic (frequently public) value of arts and culture.

A. The Economic and Fiscal Contributions of Oregon Cultural Trust Eligible Cultural Nonprofits to the Oregon Economy

The first question studies like this typically address is, "What is the impact of the cultural sector on employment, income, or tax revenues?" To the extent that the cultural sector attracts visitors (and the money they spend) from out-of-state or to the extent it keeps Oregonians from spending money elsewhere, the cultural sector increases economic activity in the state. Increased economic activity means more jobs, higher incomes, and greater tax revenue than might otherwise exist.¹¹

For instance, a recent study completed by Americans for the Arts estimated the economic activity generated by America's nonprofit cultural industry and found that the sector generates \$135.2 billion in economic activity supporting 4.1 million jobs and \$22.3 billion in government revenue.¹² This same study estimated the impacts of arts and culture nonprofits in the Portland area and in Eugene and found that arts and culture nonprofits generate over 10,000 jobs, over \$230 million in household income, and nearly \$24 million in state and local government revenue. In this subsection, we conduct a similar analysis that estimates the contributions of the Oregon Cultural Trust's eligible cultural nonprofits – to increasing jobs, incomes, and tax revenues.

To measure the economic and fiscal contributions of Oregon Cultural Trust eligible cultural nonprofits, ECONorthwest traced how and where their expenditures circulate through the state economy. The results are broadly divided into two categories: 1) *economic contributions*, which are the effects of nonprofit spending and activities on output, income and employment; and 2) *fiscal contributions*, which are the tax and fee revenues that local and state governments receive as a result of nonprofit spending and activities. These economic and fiscal contributions are measured for nonprofit spending and activities in 2011.

¹¹ For additional discussion of economic impact studies of the arts see Frey 2005, Bille and Schulze 2006.

¹² Americans for the Arts, 2012. *Arts & Economic Prosperity IV: The Economic Impact of Arts and Culture Organizations and Their Audiences*.

The economic and fiscal contributions of Oregon Cultural Trust eligible cultural nonprofits are measured by first defining and quantifying the economic dimensions of Oregon Cultural Trust eligible cultural nonprofits, and then measuring how these eligible cultural nonprofits, through multiplier spending effects, are linked to other sectors of the Oregon economy.

Economic Dimensions of Oregon Cultural Trust Eligible Cultural Nonprofits

In the United States, most industries are classified using the North American Industry Classification System (NAICS) coding framework. Industries have an official NAICS code, and government-collected data on the number of employees and payroll, and sometimes sales. ECONorthwest obtained information from the Oregon Cultural Trust on its eligible cultural nonprofits, and worked closely with Oregon Cultural Trust staff to identify relevant NAICS codes and Standard Occupational Classification (SOC) occupations for both the larger cultural sector and eligible cultural nonprofits.

Unfortunately, the organizations that comprise the cultural sector, in general, and the Oregon Cultural Trust eligible cultural nonprofits, in particular, consist of various businesses, sectors, and activities that do not fit neatly into a single, government-defined industry code. In addition, the cultural sector includes small businesses and civic, volunteer, and school-sponsored activities that are not captured by official government industry codes. Thus, ECONorthwest compiled data from various sources to measure the economic dimensions and impacts of Oregon Cultural Trust eligible cultural nonprofits:

1. ECONorthwest obtained 2011 employment and wage data (QCEW data) from the Oregon Employment Department.¹³ QCEW data is collected through a cooperative program – the Covered Employment and Wages Program – involving the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor and state employment security agencies.¹⁴
2. A survey of Oregon Cultural Trust eligible cultural nonprofits was distributed online to gather data about payroll, revenues, employment, volunteer hours, and other topics directly from the nonprofits. Appendix B provides more detailed information about this survey.
3. As discussed previously, many of the nonprofits that are associated with the Oregon Cultural Trust are not “covered” employers. As such, they are not included in the State QCEW data. Accordingly, ECONorthwest conducted

¹³ QCEW employment data represents the number of covered workers – i.e., covered by state unemployment insurance – who worked during, or received pay, for the pay period. QCEW data excludes members of the armed forces, the self-employed, proprietors, domestic workers, unpaid family workers, and railroad workers covered by the railroad unemployment insurance system. QCEW wage data is reported on a quarterly basis and represents the total compensation paid during the calendar quarter, regardless of when the services were performed. Wages include vacation and other paid leave, bonuses, stock options, tips, the cash value of meals and lodging.

¹⁴ QCEW data is the most comprehensive data series of monthly employment and quarterly wages. As such, QCEW data is used in wide range of economic analyses, and is a particularly valuable data source for evaluating labor trends, by major industry sector and geographic units, over time. The QCEW data that ECONorthwest received was an electronic record of the raw data files that the Oregon Employment Department sends to the Bureau of Labor Statistics. As such, it is highly confidential information and can only be reported if it meets the following two conditions (and this report does): 1) If there are three or more reporting units at the summary level desired, and 2) If no one unit represents 80 percent or more of the summary level employment.

additional research with Dun & Bradstreet (D&B)¹⁵ – a leading source of economic information on businesses – to gather additional employment and sales data.

Table 3 summarizes the amount and percent of data collected from each source. The survey data was the primary source of information for jobs, operating income, and payroll used to analyze the economic contributions of the Oregon Cultural Trust eligible nonprofits. For the nonprofits that did not respond to the survey, employment and operating data from QCEW was applied. After these steps, 822 organizations still lacked data of any type. The next step was to collect sales, payroll, and employee counts from D&B. Economic data for 367 additional nonprofits were available through this source. In certain cases, only partial data were available through D&B; consequently, ECONorthwest used payroll and non-payroll operating costs data, by industry sector, from IMPLAN to estimate sales revenues when payroll data were available, and to estimate payroll when sales revenues was known. In all, the three data sources provided information for 66 percent of the 1,326 Cultural Trust of Oregon eligible nonprofits.

Table 3. Eligible Nonprofit Information by Data Source

Data Source	Eligible Nonprofit Members	Percent of Data Collected
Survey	283	21%
QCEW Data	221	17%
Dunn & Bradstreet	3	28%
Total Known Data	871	66%
Unknowns	455	34%
Total	1,326	100%

Finally, as a way to fill in the missing data, ECONorthwest condensed the Cultural Trust’s 69-category classification of eligible cultural nonprofits into nine broader institution types (See Table 4). ECONorthwest used this categorization to estimate the incomplete economic data for the 455 remaining nonprofits that was needed to conduct the impact analysis. This estimate was achieved by calculating the average of the lowest 20th percentile within each of the nine groups and assigning those values to the unknown data points to sum output, payroll, and job totals.

Table 4 reports the economic dimensions of Oregon Cultural Trust eligible cultural nonprofits in 2011, by type of organization. Collectively, the 1,326 eligible cultural nonprofits directly generated an estimated \$580.5 million in sales (or output), including \$272.8 million in income and 8,750 jobs 2011.

¹⁵ ECONorthwest searched organizations using the D&B online data tool called HOOVERS. Please see <http://www.hoovers.com/>

Table 4. Economic Dimensions of Oregon Cultural Trust Eligible Cultural Nonprofits, 2011 (dollars in millions)

Type of Organization	Revenues	Income	Jobs
Councils, Agencies, and Associations	\$62.8	\$29.3	861
Library and Parks Foundations	\$40.2	\$24.2	818
Media	\$27.8	\$12.5	287
Museums, Galleries, Zoos, and Other	\$58.3	\$33.3	1,271
Performing Arts	\$119.3	\$48.9	2,259
Schools	\$52.9	\$26.6	686
Services	\$25.0	\$8.3	507
Foundations, Societies, and Commissions	\$169.1	\$78.3	1,298
Other	\$25.2	\$11.4	759
Total	\$580.5	\$272.8	8,750

Sources: Oregon Cultural Trust, D&B, survey of Oregon Cultural Trust eligible cultural nonprofits, and IMPLAN.
 Note: Total jobs may not add up due to rounding.

Economic Contributions of Oregon Cultural Trust Eligible cultural nonprofits

As shown in the previous section, Oregon Cultural Trust eligible cultural nonprofits *directly* contribute to the Oregon economy by producing goods and services, hiring workers, and paying wages. This direct economic activity is linked to additional economic activity in Oregon as spending and incomes move from eligible cultural nonprofits to other sectors of the economy. These *secondary* impacts include indirect impacts generated by spending between businesses (also called supply-chain impacts) and induced impacts from increases in employment, income, and purchasing power (called consumption-driven impacts).

The economic modeling framework that best captures these direct, indirect, and induced effects is called *input-output modeling*. Input-output models provide an empirical representation of the economy and its inter-sectoral relationships, enabling the user to trace the effects (economic impacts) of a change in the demand for commodities (goods and services). ECONorthwest used an input-output model of the Oregon economy developed with the IMPLAN (for Impact Analysis for PLANning) economic impact modeling software.¹⁶ The following impact measures are reported in this analysis:

¹⁶ The IMPLAN model is widely used and well respected. The United States Department of Agriculture (USDA) recently recognized the IMPLAN modeling framework as “one of the most credible regional impact models used for regional economic impact analysis,” and, following a review by experts from seven USDA agencies, selected IMPLAN as its analysis framework for monitoring job creation associated with the American Recovery and Reinvestment Act (ARRA) of 2009. See excerpts from an April 9, 2009, letter to MIG, Inc., from John Kort, Acting Administrator of the USDA Economic Research Service, on behalf of Secretary Vilsack, at www.implan.com

- **Output** represents the total value of industry production. It is the broadest measure of economic activity, and is roughly equal to industry sales.
- **Income** consists of wages and business income. Workers' wages include benefits. Business income (or proprietary income) represents income received by small-business owners or self-employed workers. Oregon Cultural Trust eligible cultural nonprofits include a significant number of small business owners and self-employed workers.
- **Jobs** include both full- and part-time employment.
- **State and local taxes** include indirect business taxes (discussed above) as well as personal income taxes; social insurance (employer and employee contributions) taxes; and various other taxes, fines, and fees paid by businesses and households.

The economic contributions of Oregon Cultural Trust eligible cultural nonprofits are shown in Table 5.

Table 5. Summary of Economic and Fiscal Contributions of Oregon Cultural Trust Eligible Cultural Nonprofits, 2011 (all dollars in millions)

Impact Measure	Direct	Secondary	Total
Output	\$580.5	\$664.3	\$1,244.8
Income	\$272.8	\$193.5	\$466.3
State and Local Taxes	\$19.6	\$37.6	\$57.2
Jobs	8,750	6,140	14,890

Sources: ECONorthwest using the IMPLAN model, and the Oregon Cultural Trust eligible cultural nonprofit dataset compiled using information from the Oregon Cultural Trust, and data from Oregon Employment Department, Dun & Bradstreet, a survey of eligible cultural nonprofits, and IMPLAN.

The direct impacts shown in the first column of Table 5 represent the economic activity by Oregon Cultural Trust eligible cultural nonprofits (and previously described in Table 4). The secondary impacts associated with the eligible cultural nonprofits in 2011 are considerable, providing strong evidence that the cultural sector has extensive linkages to other sectors of the Oregon economy. (These linkages and multiplier effect will be discussed in greater detail later in this report.)

Table 6. Impact Multipliers for Oregon Cultural Trust Eligible Cultural Nonprofits (2011)

Impact Measure	Impact Multiplier
Output	2.1
Income	1.7
State and Local Taxes	2.9
Jobs	1.7

Sources: ECONorthwest using the IMPLAN model, and the Oregon Cultural Trust dataset compiled using information from the Oregon Cultural Trust, and data from Oregon Employment Department, Dun & Bradstreet, a survey of eligible cultural nonprofits, and IMPLAN.

All of the impact measures described in Table 6 can be summarized across direct and secondary (indirect and induced) impact categories using mathematical formulae to measure and explain what economists refer to as the “multiplier effect.” In essence, economic multipliers provide a shorthand way to better understand the linkages between a company and other sectors of the economy, i.e., the larger the economic multiplier, the greater the interdependence between a sector and the rest of the economy.

According to our economic impact model of Oregon, Oregon Cultural Trust eligible cultural nonprofits, in aggregate, have the following impact multipliers:

- The output multiplier is 2.1. Thus, on average, every million dollar in sales for eligible cultural nonprofits is linked to another \$1.1 million in sales for other Oregon businesses.
- The income and job multipliers are 1.7. Thus, every million dollars in income earned by eligible cultural nonprofits is linked to another \$700,000 in income elsewhere, and every 10 jobs for eligible cultural nonprofits is associated with 7 jobs in other sectors of the Oregon economy.
- The tax multiplier is 2.9. Thus, every million dollars in taxes and fees paid by eligible cultural nonprofits is linked, on average, to another \$1.9 million in taxes and fees generated in other sectors.

Table 7 provides another perspective of the multiplier effect by showing how the direct spending attributed to Oregon Cultural Trust eligible cultural nonprofits supports jobs and economic activity in other industry sectors.

Table 7. Total Economic Contributions of Oregon Cultural Trust Eligible Cultural Nonprofits, by Major Industry Sector, 2011

Major Industry Sector	Direct	Secondary	Total
Natural Resources	0	63	63
Construction	0	85	85
Manufacturing	0	117	117
Transportation, Information, Utilities	5	237	242
Trade	76	739	815
Service	8,663	4,783	12,902
Government	0	115	658
Total	8,750	6,140	14,890

Oregon Cultural Trust eligible cultural nonprofits direct jobs are concentrated primarily in the service sector, with additional direct employment in trade and transportation, information, and utilities sectors. However, eligible cultural nonprofits' payroll and business purchases are linked to secondary impacts to nearly every sector of the Oregon economy, including: service sector (6,139 jobs), trade (285 jobs), transportation, information, and utilities (237 jobs), and manufacturing (117 jobs).

Table 8 reports the total tax and fee revenues associated with Oregon Cultural Trust eligible cultural nonprofits in 2011.

Table 8. Total Fiscal Contributions of Oregon Cultural Trust Eligible Cultural Nonprofits, by Type of Tax, 2011 (all dollars in millions)

Type of Tax or Fee	Amount	Percent of Total
Corporate profits and dividends	\$2.0	3%
Property taxes	\$19.1	33%
Income taxes	\$17.1	30%
Other taxes	\$9.5	17%
Fees and other non-taxes	\$8.5	15%
Social insurance taxes	\$1.0	2%
Total	\$57.2	100%

Volunteer Hours

Another important component of the cultural industries is the contribution from volunteers. The most straightforward approach to measuring the value of volunteers can involve finding the wage of a paid worker doing roughly the same job as a volunteer. This is generally known as the "replacement cost" approach since it measures the value of the volunteer contribution by reference to what it would cost to hire someone to do the work the volunteer does for free. The replacement cost approach through observed market proxies seems to be the optimal method for estimating the aggregate value of volunteering.¹⁷ Using information provided by survey respondents, Oregon Cultural Trust eligible cultural nonprofits averaged over 1,300 volunteer hours each year. Organizations in the Museums, Galleries, Zoos and Other category averaged the most volunteer hours, totaling over 4,600 hours a year. The average amount of volunteer hours by institution type gathered from the survey was extrapolated across all Oregon Cultural Trust eligible cultural nonprofits to estimate a total of 2.6 million hours of volunteer time. It is estimated that in Oregon the average value of one volunteer hour is \$18.85¹⁸, which

¹⁷ Salamon, L., S. Sokolowski, and M. Haddock, 2011. "Measuring The Economic Value Of Volunteer Work Globally: Concepts, Estimates, And A Roadmap To The Future." *Annals of Public and Cooperative Economics* 82:3: 223.

¹⁸ The value of volunteer time is based on the average hourly earnings of all production and non-supervisory workers on private non-farm payrolls (as determined by the Bureau of Labor Statistics). Independent Sector takes this figure and increases it by 12 percent to estimate for fringe benefits. See http://www.independentsector.org/volunteer_time.

translates into \$49,000,000 of value from volunteers within Cultural Trust eligible cultural nonprofits organizations. Table 9 shows value of volunteer hours by type of institution.

Table 9. Value of Volunteer Hours of Oregon Cultural Trust Eligible Cultural Nonprofits, 2011

Type of Organization	Total Volunteer Hours of Survey Respondents	Average Volunteer Hours per Organization	Total Volunteer Hours	Value of Volunteers
Councils, Agencies, and Associations	69,371	1,508	313,678	\$5,912,800
Library and Parks Foundations	15,978	666	99,197	\$1,869,900
Media	5,100	1,275	26,775	\$504,700
Museums, Galleries, Zoos, and Other	120,175	4,622	536,165	\$10,106,700
Performing Arts	133,617	1,735	501,498	\$9,453,200
Schools	1,100	138	8,250	\$155,500
Services	65,457	5,035	468,269	\$8,826,900
Foundations, Societies, and Commissions	74,028	1,851	479,331	\$9,035,400
Other	50,424	1,327	173,830	\$3,276,700
Total	535,250	1,939	2,606,993	\$49,141,800

B. The Oregon Cultural Trust and its Eligible Cultural Nonprofits Contribute to Oregon’s Capacity to Grow Over the Long Run

A second question economists ask when assessing the contribution of the cultural sector to the regional economy is – does the sector increase economic growth over the long run? Economists believe the long-run health of a regional economy stems from the region’s stocks of the four forms of capital – human capital (individuals and their knowledge and skills), physical capital (machines and infrastructure), natural capital (natural resources), and social capital (social networks, norms, trust, and institutions) – and from how innovative the region’s workers and entrepreneurs are. As such, the cultural sector contributes to long run growth to the extent that it increases regional stocks of the four forms of capital or to the extent that it increases regional creativity and innovation.

Culture may contribute the regional economic capacity by:¹⁹

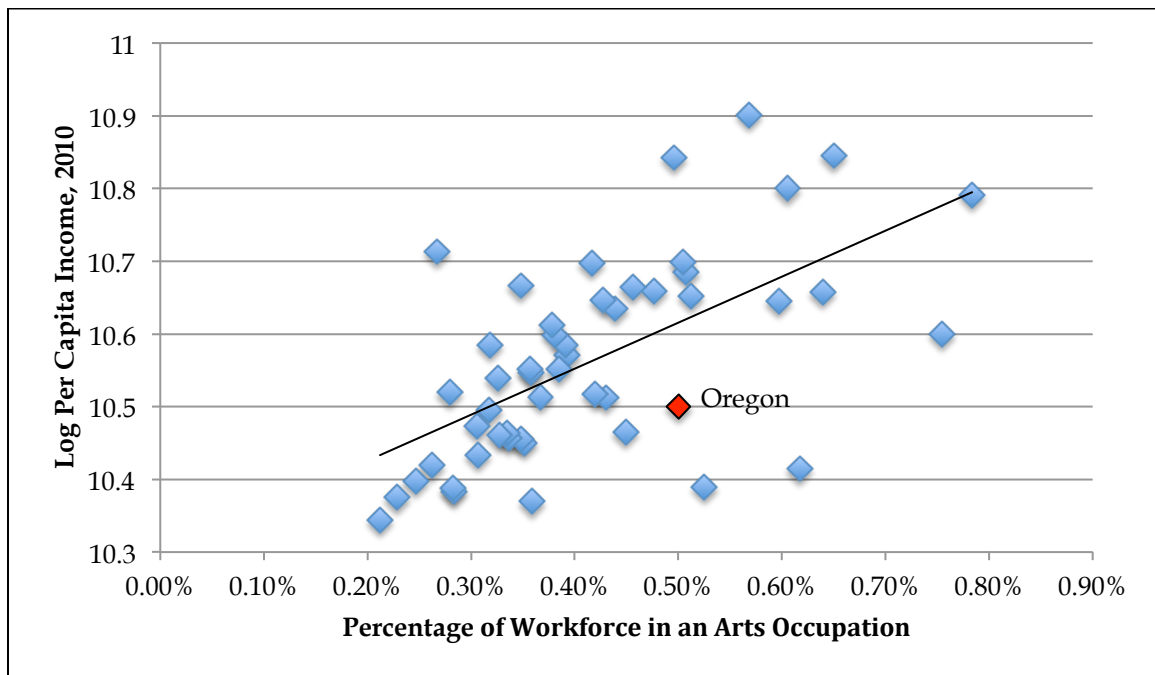
- Helping to create smarter, healthier, more well-rounded, and ultimately more productive humans (who, in turn, help promote economic growth and development).

¹⁹ For extensive discussion of the literature on the relationship between arts and culture and urban and regional development, see Bille and Schulze (2006) and Guetzkow, J., 2002. “How the arts impact communities: An introduction to the literature on impact studies.” Princeton University Center for the Arts and Cultural Policy Studies Working Paper Series, 20.

- Promoting a culture of creativity which, in turn, fuels innovation.
- Attracting migrants (particularly skilled, creative workers) who, in turn, increase the productivity of the regional workforce.
- Creating social bonds and social capital which, in turn, may help spawn new ideas and endeavors and may help facilitate the creation/preservation of more efficient markets and governing institutions.

Through all or any of these means, arts and culture may contribute to the productive capacity of the region. As shown in Figure 3, some support for these hypotheses is found in the strong correlation between the share of a region’s workers in arts and culture occupations (the horizontal axis) and the logarithm of its per capita income (a common measure of worker productivity shown on the vertical axis).²⁰ Places with more arts workers have higher income which is exactly what we would expect if the relationships described above hold true.

Figure 3. Income vs. Percentage of Workforce in Cultural Occupations, by State, 2010



Of course, correlation does not prove causation. Some argue that causality runs the opposite direction – places with high income draw artists because they have the resources to support them.²¹ Some recent work does support the argument that arts and culture causally affect long run productivity,²² but economists continue to debate the

²⁰ This correlation is explored and explained in more detail in Florida, R., C. Mellander, and K. Stolarick, 2008. “Inside the black box of regional development – human capital, the creative class and tolerance.” *Journal of Economic Geography* 8(5): 615-649.

²¹ Bille and Schultze 2006, Moretti, E., 2012. *The New Geography of Jobs*. New York: Houghton Mifflin Harcourt.

²² It is difficult to prove causality because economists don’t get to work in laboratories where they can randomly increase arts and culture in a region and watch what happens; however, sometimes historical accidents create quasi-experimental conditions that economists can exploit to estimate causal relationships. One recent paper uses historical accidents – the location of opera houses in 17th and 18th Century Germany to

importance of arts and culture (and the, so called, “creative class” more generally) to increasing worker productivity, attracting migrants, and creating a culture of creativity.

Looking at Oregon specifically, we see some evidence that is consistent with the hypothesis that arts and culture contributes to long run regional growth but we cannot rule out the possibility that arts and culture’s impacts on long-run health are limited. Specifically, we note that, consistent with the view that arts and culture contributes to Oregon’s economic health, (1) Oregon employs a relatively high share of arts and culture workers, (2) Oregon ranks highly in quality of life (one economist, using sophisticated economic tools, estimates that Oregon’s quality of life is 5th best in the U.S.),²³ and (3) Oregon attracts a very large share of high skilled migrants (e.g., one recent paper ranked Portland second in the nation in attracting and retaining young college-educated workers).²⁴ Thus, while we cannot conclusively demonstrate the contribution of culture to Oregon’s accumulations of skilled and creative workers, the picture that emerges from the data is not inconsistent with the hypotheses described above.

C. The Oregon Cultural Trust and its Eligible Cultural Nonprofits Create Goods, Services, or Experiences that have Intrinsic Private and Public Value

The final question economists ask when assessing the contribution of a sector to the regional economy is simple and direct – does the sector directly contribute to regional wellbeing? That is, economists want to know if (and how much) residents value the sector for its own sake, regardless of whether or not the sector contributes to long run economic growth or has large multiplier effects on jobs and incomes.

Even if culture was not a means to achieve larger social goals like a more educated populous, a more cohesive society, or faster economic growth, people would still value culture. Indeed, even people who seldom (or never) directly consume or participate in them, value culture. In contrast to the benefits enjoyed by producers and consumers of culture (private benefits),²⁵ the benefits that accrue to non-users and society overall are public benefits.²⁶ The public benefits of culture stem from the value people place on the

estimate the causal relationship between arts and skills over the very long run. These authors find that communities that built opera houses prior to the advent of modern economies attracted skilled workers and experienced faster growth over the long-run. Falck, O., M. Fritsch, and S. Heblich, 2011. “The phantom of the opera: Cultural amenities, human capital, and regional economic growth.” *Labour Economics* 18(6): 755-766.

²³ This measure uses differences in housing prices and wages across place to infer what people are willing to pay to enjoy the amenities in particular location. As such, this measure of quality of life includes all local amenities – climate, culture, etc. Albouy, D., 2012. “Are big cities really bad places to live? Estimating quality of life across metropolitan areas.” <http://www-personal.umich.edu/~albouy/QOL/improvingqol.pdf>

²⁴ Jurjevich, J. and G. Schrock, 2012. “Is Portland really the place where young people go to retire? Migration patterns of Portland’s young and college-educated, 1980-2010.” <http://mkn.research.pdx.edu/wp-content/uploads/2012/09/JurjevichSchrockMigrationReport1.pdf>

²⁵ Every sector contributes something of value to the economy; otherwise it would not exist. The cultural sector is no different. At its core, this sector produces arts, culture, and related experiences. Individual consumers and patrons support these endeavors because, at least in part, they derive pleasure or other value from these experiences. Similarly, producers derive pleasure (and in some cases income) from the creative process.

²⁶ The existence of significant benefits to non-users suggests that arts and culture resemble many environmental goods. The types of intrinsic (or non-use) values that people use to describe the social benefits of arts and culture also frequently describe why people support preservation of things like the Oregon Coast and old growth forests.

pure existence of art and culture (existence value), from the value people place on having the option to experience arts and culture at some point (option value), from the value people place on passing their culture, experience, and wisdom to future generations (bequest value), from the value that people place on social cohesion and collective expression (social capital value), and from the value people place on the prestige associated sharing a community with renowned artists or cultural institutions (prestige value).²⁷

While such benefits may be abstract, some economists argue that intrinsic social benefits are the most important contribution of the sector. For instance, economists Trine Bille and Guenther Schulze argue, “The most important impact of culture – and the main argument for their public support – is in their cultural or social significance. If one only analyzes the impact of culture in relation to the economic side effects, a wrong picture will emerge.”²⁸ Similarly, economist Bruno Frey argues, “People are prepared to support artistic activities for many different reasons, selfish economic benefits being only one, and perhaps not even the most important one. An important reason for supporting culture is an intrinsic interest in art. People enjoy arts activities for themselves (direct consumption benefits) as well as for their heirs and other people (indirect benefits).”²⁹

Quantifying these effects – particularly placing them in dollar denominated values so they can be compared to more traditional economic effects – is challenging. By definition, these effects exist outside of the normal market context, so we cannot estimate value by examining market outcomes. Instead, economists use an alternative approach known as the contingent valuation method (CVM) which entails carefully asking people their willingness to pay to support culture, even if they do not participate directly in culture.³⁰

Over the past several decades, dozens of CVM studies have attempted to estimate the social value people place on aspects of arts and culture. These studies generally show that people (both users and non-users) express high willingness-to-pay and that the non-use value constitutes the largest part of total value.³¹ For instance, a pioneering study that examined tax funding for arts and culture found that 72 percent of respondents favored increasing public spending on arts and culture from its existing level of \$6 per person.³² The median respondent suggested that \$18 per person would be appropriate (and the average respondent favored \$43 per person). Other studies find similar results.

²⁷ Frey, B.S., 2005. “What values should county in the arts? The tension between economic effects and cultural value.” [IEW - Working Papers](#) iewwp253, Institute for Empirical Research in Economics - University of Zurich; Bille, T. and G. G. Schulze, 2006. “Culture in Urban and Regional Development.” In *Handbook of the Economics of Art and Culture, Volume 1*.

²⁸ Bille and Schulze 2006

²⁹ Frey 2005

³⁰ For more on CVM studies generally see Arrow, K., Solow, R., Portney, P., Leamer, E., Radner, R., and Schuman H. (1993) “Report of the National Oceanic and Atmospheric Administration Panel on Contingent Valuation”. *Federal Register* 58 (10): 4016–4614, and CVM for arts and culture see Throsby, D., 2003.

“Determining the Value of Cultural Goods: How Much (or How Little) Does Contingent Valuation Tell Us?” *Journal of Cultural Economics* 27: 275-285; analysts also use other techniques to assess non-market values (e.g., travel cost or hedonic analyses).

³¹ Noonan, D., 2002. “Contingent Valuation Studies in the Arts and Culture: An Annotated Bibliography” *The Cultural Policy Center at the University of Chicago Working Paper*; Bille and Schultze 2006

³² Thompson, BJC, D. Throsby, and G.A. Withers, 1983. “Measuring Community Benefits from the Arts.” Research Paper No. 261 (School of Economic and Financial Studies, Macquarie University).

Unfortunately, none of the studies listed above sampled Oregonians. As such, we cannot definitively describe Oregonians' willingness to pay for arts and culture; however, average willingness to pay in Oregon is likely to be at least as high as the amounts described above. The existing studies generally find that willingness to pay for arts and culture increases with education and income, and Oregon has higher education and income than the areas examined in the study listed above. More important, the literature also consistently finds that people who participate in arts and culture have substantially higher willingness to pay for arts and culture and Oregonians participate in arts and culture at very high rates. An analysis conducted by the National Endowment for the Arts found that Oregon ranks 1st among all states in the share of people who participate in arts and culture activities.³³

IV. The Efficacy of Oregon's Cultural Trust Tax Credit

As noted previously, in 2001 the Oregon Legislature passed HB2923 created the funding mechanism of Oregon's Cultural Trust in order:

*"to enhance the lives of Oregonians by implementing a sustainable public-private integrated cultural funding program that will support, stabilize and protect Oregon culture; the humanities, heritage and the arts. The Trust will expand public awareness of, quality of, access to and use of culture in Oregon."*³⁴

To generate the funding to support this goal, HB2923 created the cultural trust tax credit, the culture license plate, and allowed the state to transfer assets to the trust.

Since that time the Oregon Cultural Trust has grown a \$17 million permanent fund that gave \$1.45 million in grants in FY2011-12.³⁵ In FY2011, 7,517 households and 11,715 donors contributed nearly \$3.9 million to the cultural trust. As such, contributions comprise the vast majority of the Oregon Cultural Trust's revenues, and the vast majority of these contributions, 99.3%, qualify for the cultural trust tax credit.³⁶

"Gifts to the Cultural Trust optimize the impact of each dollar given in support of Oregon's cultural community. It's a win for everyone."

- Sue Metzler, Oregon Historical Society

The cultural trust tax credit allows taxpayers who donate to qualified nonprofits to make a matching contribution to the Oregon Cultural Trust at no cost (i.e., for free), subject to certain limits (\$500 for individuals, \$1,000 for married couples, and \$2,500

for corporations). Stated simply, the cultural trust tax credit allows taxpayers who contribute to qualified nonprofits to redirect some of their tax payment from the general fund to the Oregon Cultural Trust (which, in part, funds some activities that would otherwise be in the general fund).

³³ Unfortunately, the sample size for Oregon in the NEA analysis is small, so Oregon's position as the highest ranked state may be tenuous given the large margin of error surrounding the estimate. However, the report includes a "Special Note on Oregon" that concludes that "Oregon is likely a frontrunner in performing arts and museum attendance." Nichols, B., 2012. "An Average Day in the Arts: State Participation Patterns from the American Time Use Survey for 2006-2010." National Endowment for the Arts NEA Research Note #106

³⁴ Oregon Cultural Trust, "The Trust History" <http://www.culturaltrust.org/about/the-trust-history>

³⁵ Oregon Cultural Trust FY2011 Annual Report

³⁶ Correspondence with Oregon Cultural Trust representatives

After 10 years, it is natural to ask, “is the cultural trust tax credit an effective way to raise funds to support arts and culture, are there alternative ways to increase funding that could raise the same amount with lower cost to taxpayers?” We address these questions in this section.

A. Is the Cultural Tax Credit an Effective Means of Funding the Oregon Cultural Trust?

The tax credit provides a very effective means of raising money for the Oregon Cultural Trust. As discussed above, nearly twelve thousand donors contributed nearly four million dollars to the Oregon Cultural Trust in FY2011. It is not hard to understand why people donate to the Oregon Cultural Trust. For those who donate to arts and culture nonprofits, the contribution is costless, and it is hard to beat free.³⁷

The ability to contribute to the Oregon Cultural Trust at no additional cost to the individual taxpayer provides a very strong incentive for qualified taxpayers to contribute to the Oregon Cultural Trust; however, if desired, policymakers could increase the Cultural Trust’s revenues in a variety of ways. For instance, they could change the caps on the tax credit or modify the matching contribution requirements.³⁸ Alternatively, policymakers could increase funding for the Oregon Cultural Trust by contributing more money directly from the state’s general fund.

B. Does the Oregon Cultural Trust Increase Total Funding for Oregon’s Cultural Sector?

The cultural trust tax credit has been a successful mechanism that raises funds for the Oregon Cultural Trust; however, it is important to ask how the Cultural Trust has affected total funding for arts and culture in Oregon. It is possible that the creation of the tax credit increased total funding for arts and culture, but it is also possible that it simply shifted funds from one group to another or even that it decreased total funding. To ensure that the tax credit helps to increase awareness, quality, access, or use of arts and culture, we examined whether or not the tax credit increases or decreases total funding Oregon’s arts and culture nonprofits?

The tax credit was carefully designed to ensure that total funding for arts and culture increased. By creating a 100 percent tax credit, the legislature made sure that the Oregon Cultural Trust was not competing with other Oregon cultural nonprofits for contributions.³⁹ If the tax credit only covered some portion (e.g., 50 percent) of the donation to the Oregon Cultural Trust, then it is possible that the other 50 percent of the donation to the Oregon Cultural Trust would come from funds that would otherwise have been donated directly to an Oregon cultural nonprofit. By offering a tax credit for 100 percent of the donation to the Cultural Trust, policymakers eliminated this potential

³⁷ Technically, there is an opportunity cost to the contribution to the Oregon Cultural Trust. By contributing to the Oregon Cultural Trust, the taxpayer reduces money in the General Fund. As such, the taxpayer making the contribution effectively gives up the value they place on what the State would have spent the money on.

³⁸ It may also be possible to increase contributions by increasing awareness.

³⁹ Schuster, J.M., 2006. “Tax Incentives in Cultural Policy” in *Handbook of the Economics of Art and Culture, Volume 1*. Ed: V.A. Ginsburgh and D. Throsby, Elsevier.

competition. As such, the funds donated to the Cultural Trust likely represent new money – i.e., money that would not otherwise be spent on arts and culture in Oregon.

It is also possible that the existence of the Cultural Trust causes people to give more money to arts and culture nonprofits than they would otherwise give. The opportunity to double their contribution to arts and culture via the tax credit may cause some donors to contribute more than they might otherwise. In this case, the Cultural Trust increases funding for arts and culture beyond simply what is contributed directly to the Cultural Trust.

However, before we can conclude that the Cultural Trust has led to a marginal increase in funding for arts and culture in Oregon, we must rule out the possibility that the existence of the Cultural Trust causes support for arts and culture to fall for some other reason. For instance, some potential donors may look at the Cultural Trust and think, “I don’t need to make this contribution to an Oregon cultural nonprofit because the Cultural Trust will take care of it.” If some additional people choose to free ride off of the contributions others, it is possible that the effect of the Cultural Trust on total funding for arts and culture would be muted.

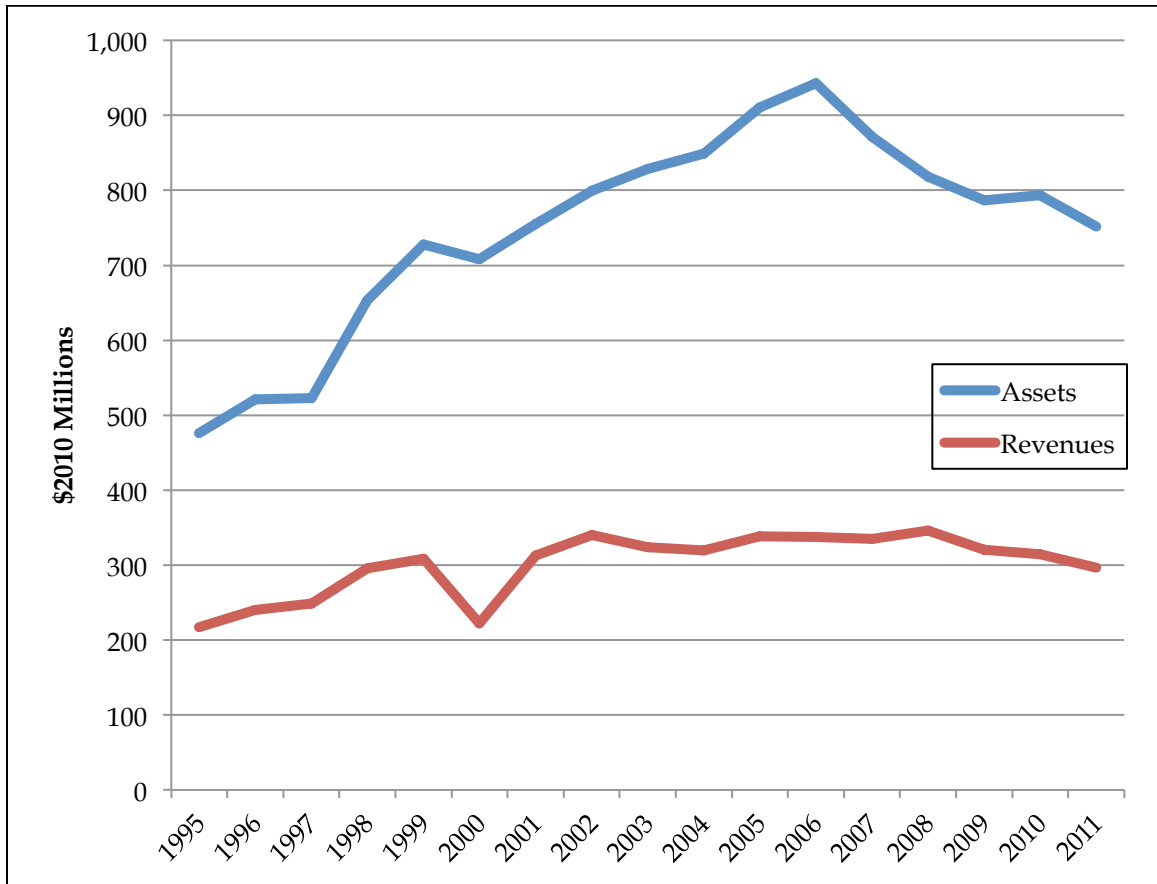
So which of these two effects dominates? Does the tax credit increase, decrease, or leave the same total private contributions to Oregon arts and culture nonprofits? Economists have extensively investigated this issue of whether or not public support for arts and culture (and other charitable endeavors) reduces (crowds out) or increases (crowds in) private support; unfortunately, the literature reaches no conclusions – relationships in all directions and magnitudes have been observed. This has led some economists to conclude that “the most responsible conclusion” with respect to this debate is that “it depends” on the sector, government, and data examined.⁴⁰

The limited data available to us, does not suggest that the creation of the Cultural Trust caused private support of Oregon’s arts and culture nonprofits to fall. That is, we do not see evidence of crowd out. According to from the IRS compiled by the National Center for Charitable Statistics, the general trends in revenues and assets for Oregon’s arts, humanities, and culture nonprofits do not decline noticeably after the creation of the Oregon Cultural Trust (see Figure 4).⁴¹ If the Cultural Trust caused people to reduce their contributions, we would expect to see revenues and assets falling after its inception in late 2002. We do not observe any break in the trend during this period. This simple analysis does not rule out the possibility that the Oregon Cultural Trust has crowded-out or crowded-in funding for Oregon’s arts and culture nonprofits, but nothing in these data suggest that dramatically changed contributions to other arts and culture nonprofits in Oregon.

⁴⁰ Schuster 2006; Brooks, A.C., 2000. “Is there a dark side to government support for nonprofits?” *Public Administration Review* 60:211-218.

⁴¹ The NCCS data are drawn from form 990 data in the IRS Business Master file filed within 24 months of reporting date and classified as an arts, culture, or humanities organization according to the National Taxonomy of Exempt Entities (NTEE). This suggests that the revenue and asset values do not report annual revenues or assets for the whole sector. We also note that the Oregon Cultural Trust does not appear to be included in these data, so the contributions to the Oregon Cultural Trust do not affect these data.

Figure 4. Assets and Revenues for Oregon Arts, Culture, and Humanities Nonprofits, 1995-2011



Source: ECONorthwest analysis of National Center for Charitable Statistics data.

C. Could the State Achieve Similar Level of Financial Support for Arts and Culture, at Lower Cost to Public?

Thus, Oregon Cultural Trust and the cultural trust tax credit likely increases funding for arts and culture in Oregon by at least \$1 for every dollar spent by the public on the tax credit. Assuming that the legislature would not appropriate an equivalent amount of the general fund to support arts and culture in its absence each year, this suggests that the Oregon Cultural Trust increases the funds available to arts and culture in Oregon. However, one question remains: could the state achieve the same increase in funding with lower cost to the general fund? That is, is it possible to spend less than \$1 in public funds to generate \$1 in arts and culture funding?

The literature we reviewed does not suggest that alternative policies would likely generate more funding at lower cost to the public. In addition to matching grants/tax credits like the cultural trust tax credit, government policy primarily affects funding for arts and culture by:⁴²

- (1) Providing funds directly for arts and culture from general revenues
- (2) Providing funds directly by creating special taxes or tax districts (a list of special taxes used in other states is provided below)
- (3) Providing funds indirectly by allowing tax deductions for charitable contributions

These options differ from each other and from Oregon's Cultural Trust tax credit in terms of: who determines how much public support is offered to arts and culture and how much does it cost the public to provide this support?⁴³

First, the approaches listed above differ in who or what determines how much public support is directed to the arts and culture sector. In the first category, the legislature directly determines the amount of public support. In the second category, the legislature determines the tax rate and what it applies to, but the specific tax base depends on the amount of economic activity subject to the tax. In the last category and with the cultural trust tax credit, the amount of public support is determined by individual contributions. Each of these options comes with pros and cons, but we see no reason to assume that one approach dominates the others.

Second, the approaches may differ in how much it costs the public treasury to increase support for arts and culture by \$1. When the legislature directly contributes to arts and culture, \$1 of public money generates \$1 in increased spending on culture. When the legislature creates a special tax or tax district, \$1 in tax revenue generates \$1 in increased spending on culture. With the Oregon's cultural trust tax credit, \$1 of tax credit generates at least \$1 in funding for Oregon's cultural trust. Thus, in general, each of these approaches raises the same amount of funds for arts and culture at the same cost to the public. It is possible, though, that these different approaches differentially affect individuals' willingness to contribute privately to arts and culture; in which case the cost of generating \$1 of support for arts and culture may be greater than or less than \$1.⁴⁴ In particular, if Oregon's cultural trust tax credit may generate additional incentives for private contributions not matched by the other schemes, then Oregon's approach may generate \$1 in additional funds at a cost of less than \$1.

The third option – tax deductions for charitable giving – raises different issues. This approach is the most widely used in the U.S. and plays a significant role in Oregon's support for arts and culture, due to the fact that Oregon relies relatively heavily on

⁴² In addition to the methods of funding listed here, governments support nonprofits (including arts nonprofits) in a variety of other ways (including nonprofit status and other means of reducing or exempting organizations from various taxes).

⁴³ One could also consider the extent to which the use of tax credits, tax deductions, special taxes, or general taxes to fund arts and culture impose different economic costs (or deadweight losses). This would entail weighing into debates about the optimal forms of taxation (e.g., is it better to use sales taxes or income taxes to fund government). Given Oregon's unique political constraints and the relatively small impact of this particular program, we did not evaluate these costs in this report.

⁴⁴ That is, they generate different amounts of crowding out or crowding in.

income taxes with relatively high rates for U.S. states.⁴⁵ The efficacy of this approach for supporting arts and culture (and other charity) remains the source of vigorous debate among economists. Some argue that tax deductions provide a means to increase support for nonprofits at rates similar to (or perhaps even better than) \$1 in public cost for \$1 in contribution; however, others argue that tax deductions costs the public more than \$1 in foregone tax revenue for every \$1 increase in contributions.⁴⁶ As noted by economist J. Mark Schuster, those on both sides of the debate can find ample evidence in the literature to support their position.⁴⁷

Ultimately, assuming that policymakers believe in the importance of providing additional funding for arts and culture in Oregon, the cultural tax credit appears to provide a relatively effective means of providing that support. It generates additional public support (beyond that provided tax deductions) for arts and culture with little evidence to suggest that the gains it generates are offset through reductions in other donations (crowding out). While other means of support could achieve the same ends (e.g., direct funding or special taxes), these alternatives do not appear to offer obvious improvements over the cultural tax credit, particularly given Oregon's disposition to taxes in general and sales taxes in particular.

"The Trust's Cultural Coalition vision is simple and effective: Citizens assess their own unique cultural landscapes and make customized funding decisions to meet locally-known needs. Brilliant."

- Cheryl Snow, Arts Alliance of Clackamas County

Special Taxes in Other States

Denver

Since 1989, Scientific and Cultural Facilities District (SCFD) has distributed funds from a 1/10 of 1percent sales and use tax to cultural facilities throughout the seven-county Denver, Colorado metropolitan area.

Maryland

Communities apply to become designated Arts and Entertainment Districts and can then benefit from various tax incentives. Under the Arts and Entertainment District Tax Credit, property tax credits and income tax subtraction modifications are available for arts and entertainment enterprises. Exemption from the Admissions and Amusement tax are also offered.

Minnesota

The City of St. Paul assesses an additional one-half cent on the state sales tax of 6.5 percent, with these funds being disbursed to complete the renovation of the Civic Center and other capital projects to further residential, cultural, commercial and economic development in both Downtown Saint Paul and Saint Paul neighborhoods.

⁴⁵ Schuster 2006; Netzer, D., 2006. "Cultural Policy: An American View" n *Handbook of the Economics of Art and Culture, Volume 1*. Ed: V.A. Ginsburgh and D. Throsby, Elsevier.

⁴⁶ Schuster 2006; Gruber, J., 2007. *Public Finance and Public Policy, Second Edition*. New York: Worth Publishers.

⁴⁷ Schuster 2006

Missouri

The Non-resident Athletes & Entertainers Tax (A&E Tax) is the personal income tax on professional athletes and entertainers when they play or perform in the State of Missouri. 60 percent of the non-resident profession athlete and entertainers income tax is allocated to the Missouri Arts Council.

Montana

The Montana Legislature sets aside 0.63 percent of the funds generated by the Coal Severance Tax, a coal extraction tax imposed on in-state mining agencies, for the Cultural Trust.

Ohio

In 1989, an increase of one-half of one percent in sales tax for the Montgomery County Regional Arts and Cultural District was approved. Cultural organizations receive \$1 million of the sales tax to support their operations.

Pennsylvania

The Allegheny Regional Asset District in Pittsburgh was created in 1993 and whose sole source of revenue comes from a one percent sales tax, paid mostly by non-residents of the District.

Utah

For the past decade, Salt Lake County has collected one additional penny on every ten dollars spent within Salt Lake County for the Zoo, Arts and Parks Program.

APPENDIX A

Table A-1. Arts Industries

Academies, college or university	Artist's paint manufacturing	Galleries, art, retail
Academies, elementary or secondary	Audio recording post-production services	Glassware, art decorative and novelty, made from purchased glass
Accordions and parts manufacturing	Ballet companies	Graphic arts plates, sensitized, manufacturing
Advertising agencies	Book stores	Graphic arts schools
Almanac publishers (except exclusive Internet publishing)	Booking agencies, motion picture	Heritage villages
AM radio stations	Bracelets, precious metal, manufacturing	Humanities research and development services
Animated cartoon distribution	Broadcasting networks, radio	Integrated record companies (i.e., releasing, promoting, distributing)
Animated cartoon production	Broadcasting networks, television	Limited editions art print publishers (except exclusive Internet publishing)
Antique book merchant wholesalers	Broadway theaters	Management agencies for artists, entertainers, and other public figures
Antique dealers (except motor vehicles)	Camera equipment and supplies, photographic, merchant wholesalers	Music book (i.e., bound sheet music) publishers
Antique jewelry merchant wholesalers	Camera shops, photographic	Music stores (e.g., cassette, compact disc, record, tape)
Architects' (except landscape) offices	Cinemas	Music stores (i.e., instrument)
Architects' offices, landscape	Closed captioning services, taped material	Paints, artist's, merchant wholesalers
Architectural sculptures, clay, manufacturing	Clothing design services	Photography schools, art
Architectural sculptures, stone, manufacturing	Commercial photography services	Promoters of arts events without facilities
Architectural woodwork and fixtures (i.e., custom designed interiors) manufacturing	Construction paper, school and art, made from purchased paper	Promoters of live performing arts productions (e.g., concerts) with facilities
Archives	Construction paper, school and art, made in paper mills	Recreational (e.g., art, dance, music) therapists' offices (e.g., centers, clinics)
Art goods (e.g., gypsum) manufacturing	Craft supply stores (except needlecraft)	Rock musical artists, independent
Art prints commercial printing (except screen) without publishing	Cultural and arts development support program administration	Studios, commercial art
Art prints screen printing without publishing	Decorating consulting services, interior	Water colors, artist's, manufacturing
Art publishers, exclusively on Internet	Drive-in motion picture theaters	Wildlife artists, independent
Art supply stores	Galleries, art (except retail)	

Table A-2. Arts Occupations

Actors	Curators	Merchandise Displayers and Window Trimmers
Anthropologists and Archeologists	Dancers	Motion Picture Projectionists
Anthropology and Archeology Teachers, Postsecondary	Designers, All Other	Multimedia Artists and Animators
Architects, Except Landscape and Naval	Editors	Museum Technicians and Conservators
Architectural and Civil Drafters	English Language and Literature Teachers, Postsecondary	Music Directors and Composers
Architecture Teachers, Postsecondary	Entertainers and Performers, Sports and Related Workers, All Other	Musical Instrument Repairers and Tuners
Archivists	Etchers and Engravers	Musicians and Singers
Area, Ethnic, and Cultural Studies Teachers, Postsecondary	Fashion Designers	Painting, Coating, and Decorating Workers
Art Directors	Film and Video Editors	Philosophy and Religion Teachers, Postsecondary
Art, Drama, and Music Teachers, Postsecondary	Fine Artists, Including Painters, Sculptors, and Illustrators	Photographers
Artists and Related Workers, All Other	Floral Designers	Producers and Directors
Audio and Video Equipment Technicians	Graphic Designers	Public Address System and Other Announcers
Audio-Visual and Multimedia Collections Specialists	Historians	Radio and Television Announcers
Broadcast Technicians	History Teachers, Postsecondary	Set and Exhibit Designers
Camera Operators, Television, Video, and Motion Picture	Interior Designers	Sound Engineering Technicians
Choreographers	Jewelers and Precious Stone and Metal Workers	Technical Writers
Commercial and Industrial Designers	Landscape Architects	Ushers, Lobby Attendants, and Ticket Takers
Communications Teachers, Postsecondary	Librarians	Writers and Authors
Costume Attendants	Makeup Artists, Theatrical and Performance	
Craft Artists	Media and Communication Equipment Workers, All Other	

Table A-3. Oregon Cultural Trust Eligible Cultural Nonprofits, by County, 2011

County	Total CTO Eligible Cultural Nonprofits	% of All CTO Eligible Cultural Nonprofits	Population	Per 10,000 Population	Indexed to State Average (OR=1.00)
Baker	11	0.8%	15,984	6.9	2.0
Benton	30	2.3%	85,928	3.5	1.0
Clackamas	63	4.8%	380,207	1.7	0.5
Clatsop	29	2.2%	37,153	7.8	2.3
Columbia	10	0.8%	49,402	2.0	0.6
Coos	34	2.6%	62,791	5.4	1.6
Crook	6	0.5%	20,839	2.9	0.8
Curry	12	0.9%	22,426	5.4	1.6
Deschutes	43	3.2%	160,338	2.7	0.8
Douglas	24	1.8%	107,490	2.2	0.7
Gilliam	3	0.2%	1,937	15.5	4.5
Grant	5	0.4%	7,410	6.7	2.0
Harney	5	0.4%	7,373	6.8	2.0
Hood River	14	1.1%	22,493	6.2	1.8
Jackson	82	6.2%	204,822	4.0	1.2
Jefferson	7	0.5%	21,771	3.2	0.9
Josephine	17	1.3%	82,987	2.0	0.6
Klamath	22	1.7%	66,299	3.3	1.0
Lake	7	0.5%	7,908	8.9	2.6
Lane	124	9.4%	353,416	3.5	1.0
Lincoln	38	2.9%	45,933	8.3	2.4
Linn	29	2.2%	118,122	2.5	0.7
Malheur	9	0.7%	31,068	2.9	0.8
Marion	94	7.1%	318,872	2.9	0.9
Morrow	1	0.1%	11,169	0.9	0.3
Multnomah	364	27.5%	748,031	4.9	1.4
Polk	15	1.1%	75,993	2.0	0.6
Sherman	1	0.1%	1,718	5.8	1.7
Tillamook	28	2.1%	25,403	11.0	3.2
Umatilla	25	1.9%	76,725	3.3	1.0
Union	13	1.0%	25,791	5.0	1.5
Wallowa	9	0.7%	6,990	12.9	3.8
Wasco	20	1.5%	25,234	7.9	2.3
Washington	102	7.7%	540,410	1.9	0.6
Wheeler	2	0.2%	1,426	14.0	4.1
Yamhill	28	2.1%	100,000	2.8	0.8
All Counties	1,326	100.0%	3,871,859	3.4	1.0

Sources:

1. Data from Oregon Cultural Trust
2. County populations based on 2011 population estimates from the US Census Bureau, see <http://quickfacts.census.gov/qfd/states/41000.html>

Table A-4. Oregon Cultural Trust Eligible Cultural Nonprofits, by Type of Organization and County, 2011

County	Council	Library and Park Foundations	Media	Muse-ums	Perfor-ming Groups	Schools	Services	Society	Other	Total Eligible Cultural Nonprofits
Baker	0	1	0	4	0	0	1	3	2	11
Benton	3	2	0	0	14	1	3	4	3	30
Clackamas	10	14	0	4	8	2	2	21	2	63
Clatsop	2	3	1	2	8	0	1	9	3	29
Columbia	1	2	0	0	0	0	1	4	2	10
Coos	3	9	0	3	8	1	0	8	2	34
Crook	1	1	0	0	1	0	0	3	0	6
Curry	2	3	0	0	1	0	0	3	3	12
Deschutes	5	5	2	2	10	2	3	6	8	43
Douglas	2	1	1	3	3	1	3	4	6	24
Gilliam	1	1	0	0	0	0	0	1	0	3
Grant	0	2	0	0	0	0	0	3	0	5
Harney	2	1	0	0	1	0	0	1	0	5
Hood River	1	2	1	3	1	0	3	2	1	14
Jackson	6	12	2	5	19	3	5	17	13	82
Jefferson	1	1	0	3	0	0	0	2	0	7
Josephine	6	2	0	2	3	1	0	3	0	17
Klamath	3	5	0	4	3	0	1	4	2	22
Lake	1	1	0	1	0	0	1	3	0	7
Lane	15	12	2	14	37	4	10	18	12	124
Lincoln	6	5	0	3	7	0	3	8	6	38
Linn	4	2	0	7	5	0	1	9	1	29
Malheur	0	2	0	0	0	0	0	6	1	9
Marion	14	10	0	11	18	3	4	27	7	94
Morrow	0	0	0	0	0	0	0	1	0	1
Multnomah	73	11	12	26	104	23	35	39	41	364
Polk	0	3	0	1	3	0	0	8	0	15
Sherman	0	0	0	0	0	0	0	1	0	1
Tillamook	7	4	0	3	2	1	2	4	5	28
Umatilla	3	4	0	4	3	0	1	8	2	25
Union	2	2	0	1	1	2	1	3	1	13
Wallowa	4	1	0	3	0	0	1	0	0	9
Wasco	2	3	0	1	2	2	0	8	2	20
Washington	21	18	0	5	25	9	9	10	5	102
Wheeler	0	0	0	0	0	0	0	1	1	2
Yamhill	7	4	0	1	2	5	2	7	0	28
Total Trust Eligible Cultural Nonprofits	208	149	21	116	289	60	93	259	131	1,326
% of All Eligible Cultural Nonprofits	15.7%	11.2%	1.6%	8.7%	21.8%	4.5%	7.0%	19.5%	9.9%	100.0%

Source: Data from the Oregon Cultural Trust

APPENDIX B

ECONorthwest conducted an online survey of Oregon Cultural Trust eligible cultural nonprofits. The sample in the survey was drawn from all organizations with valid email addresses. Due to a lack of data, we cannot conduct any analysis that addresses whether or not the population with valid email addresses constitutes a reasonably representative sample of all organizations. We also cannot conduct any analysis into whether or not survey respondents are representative of the sampled population (all organizations with valid email addresses). As such, one must interpret results from this survey cautiously. Our results may or may not provide an accurate and reliable description of the outcomes for all organizations.

Below is a summary of the results of our survey in Figure B-1. The survey was sent to the 763 eligible cultural nonprofits for which we had contact information. Of these, 283 responded to the survey with 166 completing the survey.

Figure B-1. Response Rate of Oregon Cultural Trust Organizations

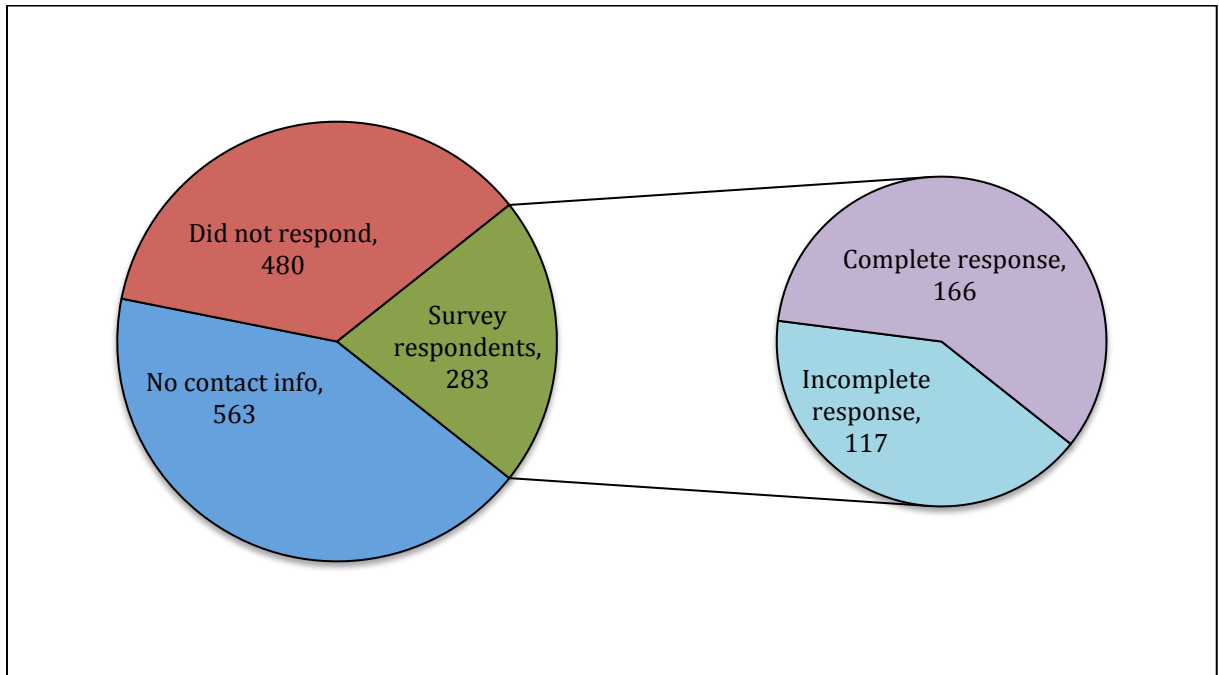


Table B-1 shows descriptive statistics for all survey questions.

Table B-1. Descriptive Statistics of all Survey Questions

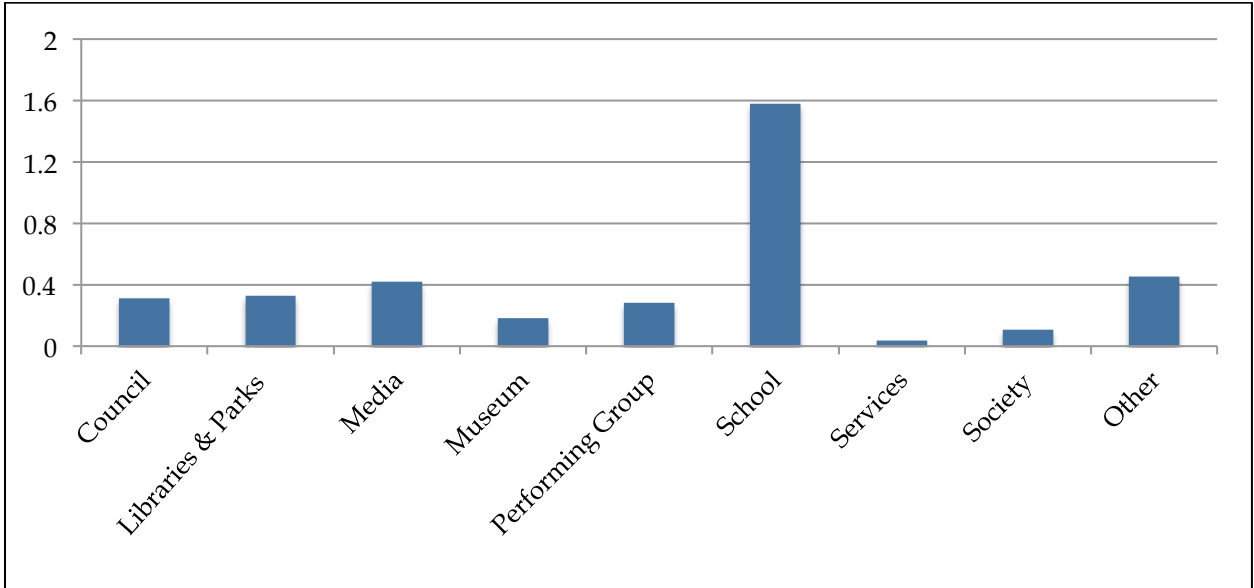
Survey Question	Answered		Mean	Median	Min	Max
	N	%				
How many employees did your organization employ in 2011? - Paid Employment	235	85.1%	8.0	2	0	236
How many employees did your organization employ in 2011? - Non-Paid Employment	235	85.1%	48.7	4	0	5,307
Estimate the Full Time Equivalency (FTE) of your employees in 2011. Paid Employment	235	85.1%	4.4	1	0	123
Estimate the Full Time Equivalency (FTE) of your employees in 2011. Non-Paid Employment	235	85.1%	7.6	1	0	400
Estimate the percentage of your employees that were hired from outside of Oregon.	233	84.4%	2.7%	0%	0%	100%
Estimate your total payroll costs (including wages and benefits) in 2011.	170	61.6%	\$116,358	\$12,500	\$0	\$2,100,000
Estimate the number of volunteer hours individuals contributed to your organization in 2011.	170	61.6%	3,149	1,000	0	100,000
Estimate your organization's annual operating expenses in 2011.	170	61.6%	\$299,578	\$52,415	\$0	\$8,900,000
Estimate your organization's total revenue in 2011. In-State	170	61.6%	\$303,539	\$54,500	\$0	\$9,200,000
Estimate your organization's total revenue in 2011. Out-of-State	170	61.6%	\$34,072	\$0	\$0	\$3,300,000
Estimate the percentage of your revenue that came from the following sources: Contributed Income	170	61.6%	33.3%	25%	0%	100%
Estimate the percentage of your revenue that came from the following sources: - Funding Sources	170	61.6%	22.1%	10%	0%	100%
Estimate the percentage of your revenue that came from the following sources: - Earned Revenues	170	61.6%	40.4%	35%	0%	100%
What percentage of your revenue do you estimate comes from outside Oregon?	164	59.4%	5.7%	0%	0%	75%
Estimate the number of admissions your organization granted in the following categories: - paid admissions	164	59.4%	3,060	94	0	175,000
Estimate the number of admissions your organization granted in the following categories: - discounted admissions	164	59.4%	543	0	0	40,000
Estimate the number of admissions your organization granted in the following categories: - free admissions	164	59.4%	1,530	100	0	46,000

Source: ECONorthwest Survey

Note: These are the results of data compiled from survey respondents and are not necessarily representative of all Oregon Cultural Trust organizations. Seven survey respondents were removed due to their exclusion from the list of eligible cultural nonprofits organizations in 2011.

Schools have by far the largest ratio of paid employees to unpaid employees as seen in Table B-2. This is most likely reflective of the fact that those involved in arts in schools are more likely to be compensated.

Table B-2. Ratio of Paid Employees to Unpaid Employees, by Type of Organization

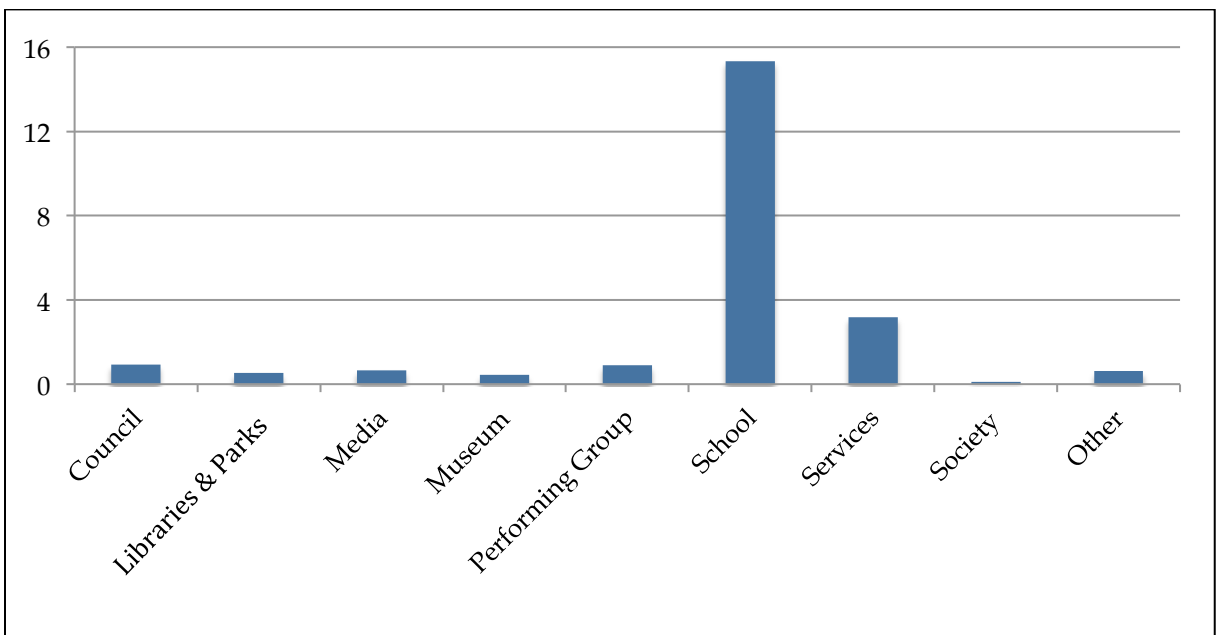


Source: ECONorthwest Survey

Note: These are the results of data compiled from survey respondents and are not necessarily representative of all Oregon Cultural Trust organizations

This remains true when adjusting for full-time equivalency (FTE) as seen in in Table B-3.

Table B-3. Ratio of Paid FTE to Unpaid FTE, by Type of Organization

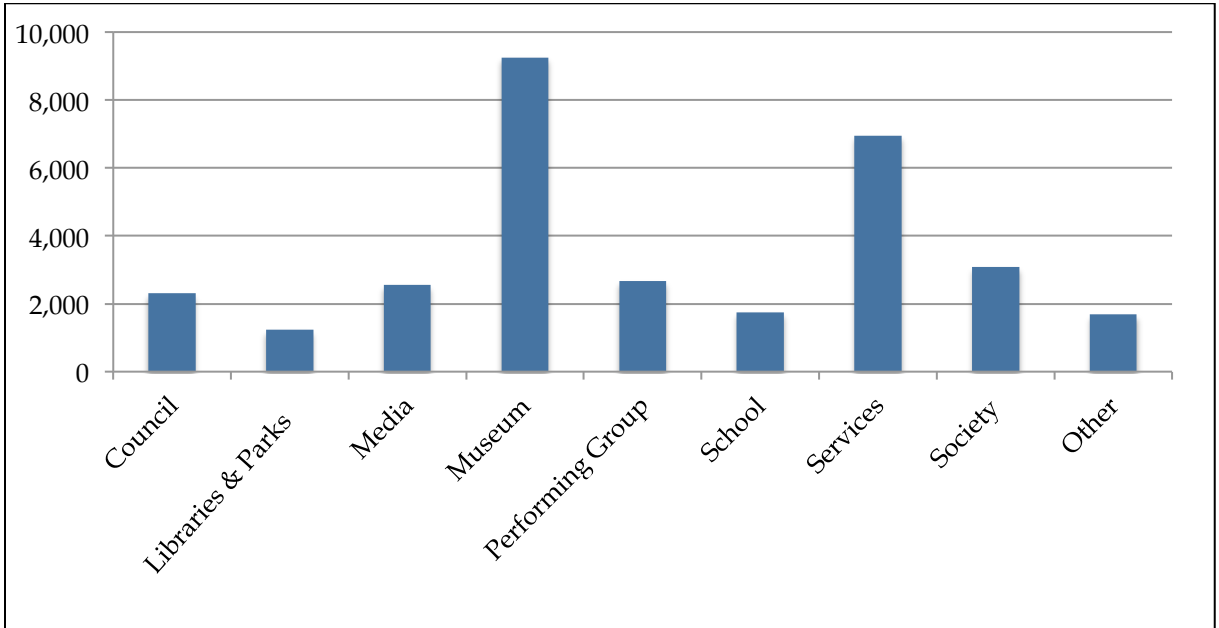


Source: ECONorthwest Survey

Note: These are the results of data compiled from survey respondents and are not necessarily representative of all Oregon Cultural Trust organizations

Museums and Services account for the largest numbers of volunteer hours by organization as seen in Table B-4.

Table B-4. Estimated Number of Volunteer, by Type of Organization

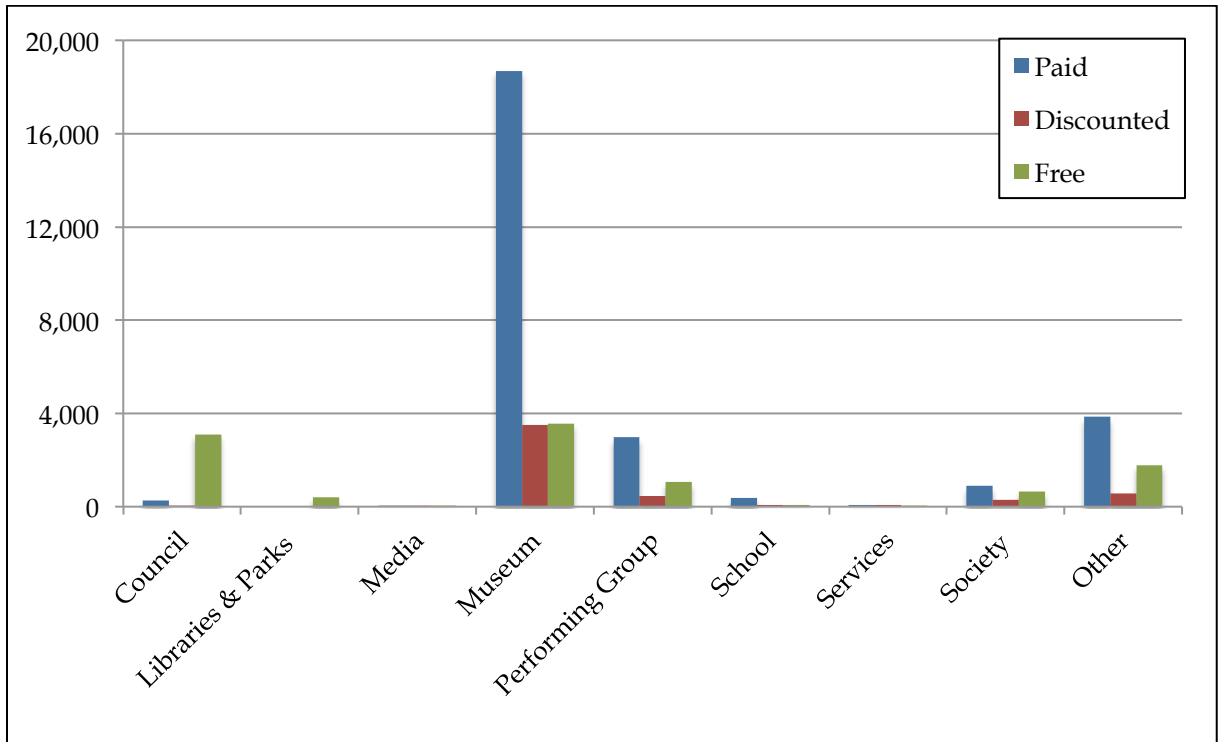


Source: ECONorthwest Survey

Note: These are the results of data compiled from survey respondents and are not necessarily representative of all Oregon Cultural Trust organizations

Museums account for by far the most of each category of admissions as seen in Table B-5. As one might expect, Museums and Performing Group are the largest attended categories (along with “Other”).

Table B-5. Estimated Number of Admissions, by Admission Type and Type of Organization



Source: ECONorthwest Survey

Note: These are the results of data compiled from survey respondents and are not necessarily representative of all Oregon Cultural Trust organizations