

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 60: COSTS AND BENEFITS OF ARTS AND CULTURAL DISTRICTS

This is in response to Councilmen Krupicka and Smedberg's budget memo request on the costs and benefits of establishing Arts and Cultural Districts in Alexandria.

Status of Arts and Cultural Districts in Virginia

The City's legislative package in 2007 included adding Alexandria to the list of localities which are authorized to establish Arts and Cultural Districts. The General Assembly approved bill doing so is attached.

In addition to Alexandria, six Virginia jurisdictions have been authorized by the General Assembly to establish Arts and Cultural Districts. These jurisdictions are the Cities of Charlottesville, Falls Church, Harrisonburg, Petersburg, and Winchester, as well as the Town of Chincoteague. Of these jurisdictions, we have found evidence that only the City of Harrisonburg has actually used their authority to create an Arts and Cultural District at this time.

No Evidence of Activity in Five Virginia Jurisdictions

- **Falls Church**: Staff indicated that they are in the initial planning stages of a future downtown revitalization. At this point, they view the Arts and Cultural District as one of many tools they have available to them during the revitalization, but have not yet made any substantive recommendations or made any decisions.
- **Charlottesville**: Staff stated that they currently have no plans to utilize the Arts and Cultural District. They asked to be included in the bill because they did not want to have to rush through the process of getting added to the list in the event that they wanted to create such a District in the future.
- **Chincoteague**: The town was given authorization by the General Assembly in 2006. They have included the use of an Arts and Cultural District in their strategic plan, but have not yet actually created one or made any decisions regarding potential incentives or regulatory flexibilities.
- **Winchester and Petersburg**: Both these jurisdictions were contacted on several occasions but City staff received no response. Other research was conducted and staff could find no evidence of either jurisdiction creating an Arts and Cultural District.

Harrisonburg

This City is the only jurisdiction in Virginia to create a formal Arts and Cultural District and to provide economic and regulatory flexibilities. Harrisonburg is using an Arts and Cultural District in conjunction with a Mainstreet District and a Historical District as an overall revitalization strategy for their downtown. These three Districts overlap both geographically and in terms of their economic incentives. As a result, Harrisonburg staff reports that it is not always possible to attribute specific successes or failures to any one of these Districts.

The City of Harrisonburg provides economic incentives and regulatory flexibilities to artists and qualified arts organizations operating within the Arts and Cultural District. The City defines a qualified arts organization as a business or not-for-profit organization physically located within the Harrisonburg Arts and Cultural District which, by the determination of the administrator, positively contributes to the spectrum of arts and cultural activities and venues available to the public. Examples may include, but are not limited to, theatres, art galleries, museums, and dance studios. The incentives are as follows:

- Property tax credits on upgraded properties within the District. These credits shall not exceed an amount equal to the increased taxes resulting from the rehabilitation, renovation, or replacement of the property and are only available on properties more than 25 years old.
- Admissions tax exemption.
- Three year exemption on business license tax (gross receipts tax).
- Flexible zoning allowing artists to live, work, and sell art in the same building.
- The City provides around \$22,000 annually to a local arts organization which distributes the money to artists in the form of grant funding.

The Coordinator of the Harrisonburg Downtown Renaissance (the non-profit group spearheading the redevelopment of the downtown District) reports that these economic incentives have not been as helpful in attracting artists as has the City's role in creating a "buzz" or placing a clear value on the role of art and artists in the community. In speaking with local artists, the feeling is that they want to be around other artists in a community that values and supports them, regardless of the economic incentives offered.

Common Features in Arts and Cultural Districts in Jurisdictions Outside Virginia

City staff also looked at jurisdictions around the country that have created varying types of Arts and Cultural Districts. Special attention was paid to jurisdictions located within the region and with some similar size and economic characteristics to Alexandria. These Districts typically support some combination of arts, culture, history, and entertainment. Although the legal authority to establish these Districts varies from state to state, staff found many common threads in both where they are typically utilized and what sorts of economic incentives are offered.

- The most prevalent trend in Arts and Cultural Districts is that they are almost exclusively used as a revitalization tool. They are commonly found in failing downtown districts or post-industrial areas. The occurrence of these Districts in areas of high property values or rents is rare.
- Also, their use as an economic development tool means they are often used in conjunction with Historic or Main Street/Downtown Development Districts. Because of this overlap, it is often difficult or impossible for localities to quantify the effects of any one of the types of Districts.

- Another trend seen nationally is the tendency of jurisdictions to turn the marketing and management of Arts Districts over to a local non-profit group and provide them some level of funding for the effort.

While Arts and Cultural Districts generally have these linking characteristics, they vary widely in the economic and regulatory incentives they offer. Jurisdictions look at their goals and the potential incentives they have available to them and decide on their best course of action. Some of the incentives used across the country are as follows:

- Income tax credit for art created and sold in the Arts District (MD).
- Property tax credit on upgraded properties located within an Arts District; the credit lasts up to ten years (MD).
- Modified zoning to allow artists to live and work within the same structure (P.G. County).
- Subsidize, building, or renovating structures that provide studio, gallery, and living space for artists; often subsidized to make more affordable (P.G. County, Fairfax County, and numerous other examples nationally).
 - This concept is similar to the Torpedo Factory in many regards, with the primary exception being the addition of living space.
 - These structures are often used as anchors within a larger Arts District.
 - The Lorton Arts Foundation is attempting this at the old Lorton Prison facilities in Fairfax County and has cited the Torpedo Factory as a model; these revitalization efforts are a part of the County's Investing in Communities Program (ICP) with which the County provides highly flexible financing terms.
- Reduction in sales tax/sales tax exemption (Rhode Island jurisdictions)
- Homebuyer purchase incentive programs (Lowell, MA and other examples nationally)
 - These programs are often similar to the City's Employee Homebuyer Assistance Program.
 - These programs help artists purchase homes within the Arts District through low-interest loans or grants.

In speaking with various jurisdictions across the country, a few recommended practices were shared with City staff.

- First, jurisdictions should avoid making a District too large. For example, Prince George's County created a large, linear District along several miles of Route 1. They had trouble creating any sort of "identity" for the District and are now attempting to break it up into smaller pieces which will each be anchored by a larger arts facility.
- Another recommendation echoed across jurisdictions was to avoid trying to force artists into buildings or districts that are architecturally inappropriate. In Providence, R.I. the City attempted to create artist space in old office buildings and was very unsuccessful in attracting artists.
- Also, jurisdictions should avoid making administrative definitions of art and artists too complicated. Again, Prince George's County encountered this and spent countless hours debating who should be included in their programs.
- A final lesson that was repeated in multiple jurisdictions is that jurisdictions should not place too much effort into economic incentives for artists. In general, it appears that artists largely want to be in a supportive community which has lots of other artists. They want to feel valued and valuable above all else.

Last year, an intern in the Department of Recreation, Parks, and Cultural Activities provided for the Alexandria Commission for the Arts a report that covered the Arts and Cultural District concept. The report included a survey of several different types of Arts Districts and identified jurisdictions across the country that use them. That report, which is attached, concluded that the City should create an Arts and Cultural District to be used as a foundation for additional economic incentives which would attract more artists, developers, and businesses. However, the report did not recommend specific economic incentives, but focused on detailing the programs in other jurisdictions.

Arts and Cultural District in Alexandria

With the action of the General Assembly, the City of Alexandria now has a tool available in the form of an Arts and Cultural District. Before using such a tool, the City would need to make important decisions about the location of an Arts District and the types of incentives the City would offer within the District. These two decisions are closely tied, with the District's location driving the incentives to be offered.

- One very important consideration for the City of Alexandria is that there are almost no other examples of Arts and Cultural Districts being used in higher rent areas like Old Town. They usually appear as a final effort to stimulate growth in an area with a failing economy. The idea is that one first brings in artists who work to clean up an area and provide a foundation for economic revitalization. Once the artists are established, other businesses such as retail and restaurants are drawn to the area. If this occurs successfully, the area might become a unique, flourishing neighborhood. In many cases, however, once the Arts District succeeds and the neighborhood becomes established economically, artists begin to be driven out by higher rents and property values. The spaces occupied by the artists are filled by more economically viable businesses. Typically, areas with successful and vibrant economies do not use Arts Districts because there are often more economically productive uses for available office and retail space.
- Another consideration of creating an Arts and Cultural District in Alexandria is to define what one wants to achieve. For example, galleries are not known to stimulate high volumes of foot traffic. They typically operate on low sales volume and high earnings per individual sale. In other words, an area full of art galleries might not seem vibrant and busy. The lower volume of foot traffic might make the area less appealing for other retail or restaurant operations than other parts of town.

Because much of Alexandria where artists may want to locate has already been revitalized, on first blush the City does not appear to have major neighborhood areas where an Arts and Cultural District would be used in its traditional form. That does not mean such a District could not be successful in the City, if it were utilized in a slightly different way.

- For instance, the City might take the idea of renovating a structure (or creating it as a part of a redevelopment plan) for the use of artists and modify it slightly. Using Washington D.C.'s Eastern Market as a model, Alexandria could convert a space around the Braddock Road Metro Station to be utilized as a marketplace for artists and other small vendors.
- The City might also choose to create an Arts and Cultural District in one of the many traditional commercial neighborhoods on the West End of the City. The goal of such a

District could be to stimulate pockets of unique mixed-use and retail space within the neighborhood. If the right area was selected this could create additional vibrancy.

Redevelopment of the Landmark-Van Dorn area might include efforts to encourage the arts.

- One other potential use would be to create an Arts and Cultural District and put the focus on cultural initiatives in an area like Arlandria. The City could help foster the unique cultural identity of Arlandria while helping to stimulate healthy economic growth. The presence of the nationally known Birchmere music venue in Arlandria could serve as a keystone to further arts growth.
- An Arts and Cultural District(s) aimed at live entertainment or preserving old movie theatres (such as the Old Town Theatre) or the Birchmere could be a way to carve out these entities from the \$.50 per ticket admission tax.

Overall, the potential exists to create an Arts and Cultural District anywhere in the City, however, the City should make sure it has definite goals and objectives in mind and decide if a District is the most effective tool for accomplishing those goals.

Economic Incentives

The type of economic incentives offered by the City of Alexandria might be dependent on the location of the Arts and Cultural District. The City could decide it is prudent to offer property tax credits in some parts of town but less appropriate in others. Other available incentives could be offered anywhere in the City. Some of the incentives that could be offered with minor effect on the City's revenues include an exemption to the business license tax for arts businesses and artists, an admissions tax exemption, and even tax credits for improvements made to existing structures for arts purposes. Without detailing the layout of a specific Arts and Cultural District, it is impossible to say what the exact fiscal impact would be in terms of revenue loss.

As mentioned above, the three most likely incentives the City would utilize in an Arts and Cultural District are an admissions tax break, property tax credit (on property improvements), and BPOL tax break. The City currently has the authority to offer these incentives and their overall revenue impacts would likely not be too significant. Again, it is not really possible to predict the exact economic impacts of tax incentives; however, it is possible to give very rough approximations of the general scope of the revenue impact we would be looking at.

First, typical arts-related businesses in Alexandria have annual gross revenues in the neighborhood of \$200,000 to \$300,000. Very few such businesses exceed \$1,000,000 in annual gross revenues. The City's BPOL tax rate on retail businesses is \$0.20 per \$100 in gross receipts. This means the City is only collecting a few hundred dollars in BPOL tax each year from most arts-related businesses. As an example, if the City had 100 such arts-related businesses located in these Arts Districts with average gross revenues of \$250,000, a 100% BPOL tax break would likely cost the City about \$50,000 in lost revenues each year. Keep in mind that these are rough estimates, but they do provide an idea of the general impact of a BPOL tax rate break. (It should be noted that separately it has been proposed for consideration to eliminate the \$0.20 BPOL tax altogether for retail establishments with less than \$1 million in gross revenues if a commercial/industrial real estate tax is enacted for transportation purposes.)

Another possible tax incentive is providing property tax credits for a determined length of time on property improvements that enhance the value of a property and are related to the arts. Based on the current City real property tax rate of \$0.83, the City collects \$830 for every \$100,000 of value on a

property. In other words, for every \$100,000 in value added to an arts-related structure, the City would provide credits of \$830 each year, or \$4,150 over five years with this option. An example might see 10 arts-related businesses Citywide improve their property values by an average of \$100,000. If this tax credit was offered for 5 years after the improvements were made, the City would stand to pay about \$41,500 over those five years (\$8,300 annually). Again, this is a completely fictional example, as it is impossible to predict exact scenarios, but it gives an idea of the scope of the impact a property tax credit might have.

One potential use of the incentives that an Arts and Cultural district permit, would be to use that tool, in combination with other City incentives, as well as applying land use decision-making tools in order to develop a total redevelopment package so that a site was redeveloped, but with an arts and cultural component as part of the overall specific redevelopment plan.

The third tax incentive mentioned in this budget memo request was the elimination of the admissions tax. The City anticipates total admissions tax revenues in FY 2009 to be \$1,100,000. The vast majority of this will come from “multiplex” movie theatres. Total admissions tax revenues from smaller venues (i.e. Old Town Theatre) that would likely be targeted within an Arts and Cultural District would only be in the tens of thousands of dollars.

Conclusions

The lesson that is most strongly echoed by jurisdictions across the country is that economic incentives alone will not ensure the creation of a successful Arts and Cultural District. If the City chooses to implement such a District, efforts could be concentrated on marketing the community as “arts and artist friendly.” The City should attempt to find an individual or a group (most likely a non-profit arts organization) that would provide this advocacy role with energy and conviction.

The other lesson that should be taken away is that these Districts are not typically used in economically successful communities like Alexandria. Ultimately, unless the City were to make a significant capital investment or provide lower cost space through redevelopment zoning, Alexandria may simply be too expensive for a “traditional” Arts and Cultural District to thrive. If artists cannot afford to live, work, and sell their art here, they will likely find somewhere else to go. Expectations and plans need to be different – i.e. non-traditional – if a District is pursued in Alexandria.

First, the City needs to define what end it wants to achieve in regard to preserving and growing its arts and cultural communities. The second step would be to determine where that could happen in the City. Determining the appropriate tools and programs such as tax incentives, to achieve that end would seem to be the final step.

Attachment 1 – Virginia House Bill 2267

Attachment 2 – Recreation, Parks, and Cultural Activities Report on Arts and Cultural Districts