

# Council Comments:

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### ALTERNATIVE FUNDING STRATEGIES FOR THE SUPPORT OF REGIONAL CULTURAL FACILITIES IN SOUTHEAST MICHIGAN

#### THE ISSUE IN BRIEF

The civic infrastructure of a community is defined in large part by the cultural institutions that the community has established and nurtured. Cultural institutions help to define the history, values, dreams, and aspirations of the larger community, and are part of the broader educational and recreational complex that serves both adults and children. They are a rallying point for the social and civic leadership, and an economic and promotional asset for the community. Cultural institutions nourish the spirit, satisfy the soul, and stimulate the imagination. Citizens of the southeast Michigan region are especially fortunate to have available the Detroit Institute of Arts, the Detroit Zoo, the Detroit Symphony, Henry Ford Museum and Greenfield Village, and many other exceptional cultural institutions.

The future of state and local government funding for organizations that provide cultural programs and experiences is uncertain. The deteriorating economic condition of Detroit and competing needs for city government resources have led to dependence on state equity funding to provide support for city-owned cultural institutions that serve the region and the state. Recently, the competition for limited State of Michigan resources and efforts to downsize state government have led state officials to reevaluate the state commitment to fund arts and cultural institutions. Because city and state appropriations for support of cultural institutions have been significantly reduced, alternative funding strategies for support of cultural institutions should be explored. This Council Comments is the topic of Alternative Funding Strategies For the Support of Regional Cultural Facilities In Southeast Michigan, Citizens Research Council Report #309.

Citizens of southeast Michigan should accept responsibility for those cultural institutions that help to define this region, learn from the experiences of other metropolitan regions, and decide whether to adopt a dedicated regional tax to support regional cultural institutions. The broad framework of the city retaining ownership of physical assets, the nonprofit friends or founders society providing services, and the regional taxing authority providing tax support may provide the best approach to resolving finance and governance issues. One logical source of revenue for this purpose is an entertainment service tax. A five-to-six-percent tax on currently untaxed entertainment services in Wayne, Oakland, and Macomb Counties would produce about \$50 million, slightly more than the highest level of state funding for large and small cultural institutions in the region. This would insure the continued support of major institutions and provide support for smaller cultural organizations as well.

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**City of Detroit and State of Michigan Support for the Arts** Officials of the City of Detroit and the State of Michigan have established a tradition of tax support for cultural institutions. Prior to fiscal 1976-77, cultural institutions that are City of Detroit departments were supported primarily by city general funds. By the mid-1970s, city appropriations to cultural departments were substantially reduced, forcing temporary closings and elimination of some services.

The state responded to this fiscal crisis by instituting state equity grants for the support of cultural institutions and other city services in fiscal 1976-77. State equity support for City of Detroit-owned cultural institutions grew from \$9.7 million in the first year of the program to a high of \$32.4 million in 1988-89, and declined to \$20.3 million by 1992-93. State equity funding allowed the city to substitute state support of targeted services while retaining complete ownership and control and provided substantial increases in cultural agency support over time. Since the beginning of the equity grant program, the state has provided the City of Detroit with more than \$400 million to support major cultural and recreational institutions. State grants to cultural institutions have gone to both city agencies (the Detroit Institute of Arts, Detroit Zoo, the city's historical museums, Belle Isle, and Main Library) and private, nonprofit organizations (Detroit Symphony Orchestra, Detroit Science Center, and others). State equity funding was extended to the Detroit Symphony Orchestra to alleviate a financial crisis faced by that private, nonprofit organization in fiscal 1990-91. Smaller cultural organizations receive funding through the Michigan Council for the Arts and its successor, the Michigan Council for Arts and Cultural Affairs.

Reductions in 1990-91, 1991-92, and 1992-93 state equity grants and reorganization of the state arts agency were part of the state's response to its own financial problems and reflected a change in political philosophy. These reductions demonstrate the risk to cultural organizations of relying too much on the state appropriation process for operating revenues.

**State Equity Program Allocations to Detroit Cultural Institutions  
(in Millions)**

	<b>1988-89</b>	<b>1990-91</b>	<b>1992-93</b>
Detroit Institute of Arts	\$16.5	\$13.6	\$9.6
Detroit Historical Department	3.5	2.9	2.0
Detroit Zoo	2.5	2.1	1.4
Detroit Main Library	7.1	7.1	5.8
Belle Isle	2.8	2.3	1.5
Sub Total	\$32.4	\$28.0	\$20.3
Detroit Symphony Orchestra	2.6	2.5	1.8
Total	\$35.0	\$30.5	\$22.1

**Source:** Senate Fiscal Agency.

The city, with its eroding tax base and tremendous competing needs, is in a very poor position to maintain funding for cultural institutions from city resources. As the state government grapples with a structural imbalance in its budget and moves to reduce state support for the arts, it is possible that further cuts in state funding for cultural institutions may be made. With the reduction of state funding, both city departments and private nonprofit cultural organizations providing cultural amenities to the region must either reduce services or obtain other public or private funding.

**Lessons from Other Cities** Southeast Michigan is not the first region to address the problem of funding major arts and cultural institutions. Other metropolitan areas have experience with the effects of local government fiscal distress on funding for cultural organizations, the transfer of responsibility for supporting public cultural institutions from one level of government to another, and the development of new public structures to provide funding for cultural organizations.

There are several characteristics of solutions developed in other cities that are meaningful and potentially applicable in southeast Michigan. Among those that deserve special attention are regional tax districts for the support of cultural institutions; consolidated fund raising; city retention of ownership of the physical assets of cultural institutions combined with private operation; and dedication of part of cultural funding resources for the support of medium sized and smaller cultural institutions.

**The Private Support Options** There are those who question whether arts and cultural facilities and services should be financed with revenues raised by taxation. This argument is based on a definition of the proper role of government that limits government to functions essential to the protection of life, liberty, and property.

If voters do not approve new taxes to support cultural institutions and elected officials do not appropriate existing tax revenues to support those institutions, there is ample precedent for private, nonprofit corporations to administer operations based exclusively on endowment fund revenues, user fees, and voluntary contributions.

Consolidated fund raising is one strategy for relieving pressure on donors and protecting numerous cultural institutions. Fund raising coalitions for the arts are patterned after the United Way approach. A consolidated arts fund raising effort could include merging the fund raising staffs from member organizations; conducting an annual campaign; soliciting donations from individuals, foundations, and corporations (including payroll deductions); assisting member organizations; and relieving donors of the responsibility of selecting among competing organizations.

**Other Governmental Support Options For Southeast Michigan** If tax support of regional cultural institutions is justified, but the existing governmental units are unable or unwilling to provide adequate funding, then it may be appropriate to consider assigning responsibility for tax support directly to the region. It may be argued that preservation of these public resources is not the responsibility of Detroit residents only, nor the primary responsibility of state residents outside southeast Michigan, but rather that dedicated support for major regional cultural institutions should be collected from the geographic area most directly served. Additionally, a regional solution could well provide a mechanism for providing funding stability to smaller arts organizations.

One of the alternative means of guaranteeing tax support for regional cultural treasures is through creation of a regional authority and adoption of a dedicated regional tax. Any new regional tax would appropriately require approval of the voters who have the ultimate authority and responsibility to decide how the taxes they pay should be used.

The Michigan Constitution allows the Legislature to authorize regional authorities.

Notwithstanding any other provision of this constitution the legislature may establish in metropolitan areas additional forms of government or authorities with powers, duties and jurisdictions as the legislature shall provide. (Article VII, Section 27)

A new, single purpose, regional authority could be better focused, have a more streamlined administrative structure, be better able to fix responsibility and to match boundaries to the area served, and be less threatening to existing local governments than a multipurpose authority. Although establishing a new regional agency could prove more expensive than expanding an existing entity, a single purpose authority would have the same latitude to operate, provide grant funding, or contract for programs as would be available for other regional structures. A new regional authority could have only funding, or both funding and operating responsibilities. A basic decision would be which major cultural institutions would choose to be included in the funding strategy and which would likely receive voter support. A regional funding strategy could protect smaller arts organizations by dedicating a portion of revenues to those organizations.

**Financing a Southeast Michigan Regional Cultural Authority** Proposals that place cultural institutions in continuing competition with essential public services for general tax support will result in repeated financial crises for those cultural institutions. Adoption by the voters of a new regional tax dedicated to cultural institutions would remove them from that competition and insure continued support.

There are several kinds of taxes that could be considered as a basis for regional funding of cultural institutions, including increases in the local property tax, the state sales or income tax; new selected local sales or use taxes; or, new taxes on gross receipts of specific businesses. A dedicated lottery would force ticket buyers to choose between education funding and cultural funding. The bases, rates, and application of some of these potential revenue sources are limited by existing state constitutional provisions that can be changed only by statewide vote. An ideal solution would be to find either a single tax or a combination of taxes that are related to arts and cultural purposes, that would generate sufficient revenues at a reasonable rate, be easy to collect, and keep pace with inflation.

The peak state support for metropolitan Detroit regional cultural institutions and activities was about \$45 million, but the adequacy of any tax would depend on whether the regional authority were expected only to support cultural operations, or if it were required to indemnify Detroit for equity in facilities and art collections. For purposes of comparison only, potential tax bases and tax rates were evaluated using a target revenue of \$50 million.

Evaluation of potential tax bases and tax rates requires definition of a discrete geographic area. Wayne, Oakland, and Macomb counties comprise the primary service area for major cultural institutions, would broaden the base of support for those institutions, and provide growth potential.

**TAX BASES AND RATES REQUIRED TO GENERATE \$50 MILLION FROM THE TRI-COUNTY AREA**

<b>Tax</b>	<b>Estimated Base</b>	<b>Required Rate</b>
Property Tax	\$67.1 Billion SEV	0.745 Mills
Individual Income Tax	\$45.6 Billion Taxable Income	0.110 Percent
Sales Tax	\$30.7 Billion Taxable Sales	0.163 Percent
Single Business Tax	\$35.6 Billion Taxable Base	0.140 Percent
Amusement and Recreation Services	\$ 0.9 Billion Services Only	5.700 Percent

**Source:** Various documents; CRC Calculations.

A five-to-six-percent tax on amusement and recreation services, which are not currently subject to the state sales tax, is a viable option. One or more of 14 services in the category of “Admissions/ Amusements” are taxed in 46 states and the District of Columbia; ten or more admissions/ amusements services are taxed in 26 states. Michigan currently taxes only one of these services.

Voters could be offered the opportunity to dedicate portions of the proposed tax to specific individual cultural institutions by requiring separate votes on taxes for the DIA, the zoo, the symphony, etc. Or funds could be apportioned among a designated group of institutions or among as many institutions as possible using an allocation formula based on the relative size of the institutions' budgets in the year prior to adoption of the tax, or on some other formula, perhaps one based on relative attendance, or the amount of outside revenues raised, or the relative percentage of the equity grant institutions received in a specific year. Another approach would be to establish committees or to use existing arts councils to distribute funds based on grant requests or applications from organizations or individuals that met specified standards.

**Governance, Responsibility, and Accountability** Ownership, tax authority, governance, and administration and management of regional cultural institutions may be distributed among existing political units, a new authority, or the individual institutions in various ways. It is clear that a large number of issues would have to be resolved, and that numerous permutations of ownership, authority, and responsibility are possible.

Much of the controversy about regionalization and privatization will focus on the issue of ownership of regional cultural facilities. Clearly, as long as state funding makes it possible, the City of Detroit would likely prefer to retain ownership and control of those facilities that are now city departments. Ownership of regional cultural institutions need not change. The broad framework of the city retaining ownership of physical assets, the nonprofit friends or founders society providing services, and the regional taxing authority providing tax support may provide the best approach to resolving governance issues for those institutions that are now part of city government. This structure would allow flexibility in developing arrangements among the city, regional authority, and nonprofit organizations, and could apply to major institutions and to smaller cultural organizations.

Part of the difficulty in establishing productive communications on the issue of regional funding for cultural institutions has been the result of failure to convincingly establish the societal value of those institutions, their economic impact, the extent of their usage by citizens from within and outside of the region, and the absence of a generally perceived crisis in funding that would threaten the region with the loss of these institutions. In addition, the debate has been confused by a tendency to regard the DIA, zoo, Belle Isle, historical museums, and main library as equity--the money value of the property--rather than as a public trust. The idea that cultural institutions represent assets for which the city must be reimbursed at fair market value misses the point. The "city" did not pay for these assets. Many of the assets were donated and the taxpayers of the city and of the state (which currently provides about 30 percent of the city's general fund budget) paid for those that were not donated. Since 1977, state taxpayers have paid for a significant part of the operation and maintenance of city-owned cultural institutions.

The city government is now the steward of cultural institutions that are held in trust for the public. A transfer of stewardship may be in the best interests of the institutions, the public, and the

city itself; such a transfer should not be considered in terms of a sale of capital assets from one owner to another. In fact, these institutions are not "capital" in the sense that they produce income; rather, they have required massive tax subsidies to remain open and available to the public. Preserving the public trust is what is important.

**Facing the Future** The Detroit Institute of Arts, Detroit Zoo, Belle Isle, and other regional cultural institutions are an essential part of the identity and quality of life of this region. To lose these symbols of our identity would diminish our stature and weaken our civic and cultural infrastructure. If the region were to lose these premier cultural institutions, it would become less competitive in attracting and retaining residents and businesses. It is vitally important to the City of Detroit and to southeast Michigan to protect and promote those cultural institutions that contribute significantly to the identity, the quality of life, and the civic and social infrastructure of the city and the region. The economic impact and social value of retaining major cultural institutions justifies public investment in those assets.

The preferred option for insuring the continued contributions of regional cultural institutions relies on creation of a special authority and a voter approved three-county tax on entertainment services to provide dedicated funding for cultural institutions, coupled with privatization of the operations of a city-owned facility. Privatization does not require selling city-owned facilities to private investors. Rather, privatization may involve a contract between the city, which retains ownership of the land, buildings, and collections, and a private nonprofit organization such as the Founders Society of the Detroit Institute of Arts, that assigns responsibility for operating facilities and programs to the private organization. The combination of city ownership, private operation, and regional tax funding for cultural institutions that are now part of Detroit city government, and of continued private operation and regional tax funding for cultural institutions that are now private, nonprofit operations, offers the best prospect for insuring that southeast Michigan retains the quality cultural institutions that help make this region a good place to live, work and invest.