

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

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C I T I Z E N S R E S E A R C H C O U N C I L O F M I C H I G A N

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EXECUTIVE SUMMARY

Alternative Funding Strategies for the Support of Regional Cultural Facilities in Southeast Michigan

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 economical 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.

Historically, public support for cultural institutions was provided by the City of Detroit. When the financial condition of the City of Detroit precluded the city from maintaining an adequate level of support, the State of Michigan assumed major responsibility for funding these institutions. Now, however, that state support is threatened.

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 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 of Detroit city officials to regard the Detroit Institute of Arts, 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 paid for those not donated. The city government is now the steward of cultural institutions that are held in public trust for the public. 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. 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. A transfer of some of the stewardship responsibilities may include responsibility for funding and operations. Preserving the public trust is what is important.

Citizens of southeast Michigan should accept responsibility for those cultural institutions that help define the region, learn from the experiences of other metropolitan regions, and decide whether to adopt a dedicated regional tax to support regional cultural institutions. 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 could provide support for smaller cultural organizations as well.

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. 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. 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.

SUMMARY AND CONCLUSIONS

The future of state and local government funding for organizations that provide cultural programs and experiences in southeast Michigan is uncertain. Because City of Detroit and State of Michigan appropriations for support of cultural institutions have been significantly reduced, alternative funding strategies for support of those institutions should be explored.

The cultural institutions that are the focus of attention fall into two classes: some are part of Detroit city government (the Detroit Institute of Arts, Detroit Zoo facilities, the city's historical museums, Belle Isle, and Main Library) that have received support from state equity grants to the city; others are private, nonprofit organizations (Detroit Symphony Orchestra, Detroit Science Center, and others) that have benefited from state line item appropriations or grants from state arts agencies.

City of Detroit and State of Michigan Support for the Arts 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 officials believed that the general fund was no longer able to support nonessential services. 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 equity funding was extended to the Detroit Symphony Orchestra to alleviate a financial crisis faced by that private, nonprofit organization in fiscal 1990-91.

It is possible that further cuts in state funding for cultural institutions may be made in spite of art patrons efforts to protect arts projects and institutions. With the reduction of state funding for arts and cultural activities, both city departments and private nonprofit organizations providing cultural amenities to the region must either reduce services or obtain other public or private funding.

Lessons from Other Cities There are several characteristics of solutions to similar problems 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; grandfathering the members of existing governing boards of cultural institutions into the new policymaking bodies; and dedication of part of cultural funding resources for the support of medium sized and smaller cultural institutions.

The Private Support Options 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. Cultural fund

raising efforts could be consolidated by 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; fostering communications among 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. The preservation of these public resources may not be the responsibility of Detroit residents only, nor the primary responsibility of state residents outside southeast Michigan. 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 various possible regional means of guaranteeing tax support for regional cultural treasures is through creation of a regional authority and adoption by the voters of a dedicated regional tax. A new regional authority could have only funding, or both funding and operating responsibilities. As opposed to a multipurpose authority, 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.

Financing a Southeast Michigan Regional Cultural Authority The political effort to establish a public funding alternative must select those individual institutions or classes of institutions for which voter support can be obtained. Adoption by the voters of a new regional tax dedicated to cultural institutions would remove them from competition with other public services and would assure a continued basis of support.

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, broaden the base of support for those institutions, and provide growth potential.

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. The bases, rates, and application of some of these 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 and that would generate sufficient revenues at a reasonable rate, be easy to collect, and keep pace with inflation.

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; 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 sym-

phony, 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 state 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 Much of the controversy about regionalization and privatization will focus on the issue of ownership of regional cultural facilities. 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.

Facing the Future 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 private operation of the institutions. 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 buildings and collections, and a private nonprofit organization that assigns responsibility for raising all operating funds and 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.