

CHAPTER III 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.

It is instructive to review some of the solutions that have been implemented elsewhere. In the following discussions, property tax rates have been converted to mills or dollars per \$1,000 of taxable value.

The Denver Model: A Regional Sales Tax

In 1988, voters in the six-county Denver metropolitan region approved by a three-to-one margin imposition of a one-tenth of one percent sales tax to fund a scientific and cultural facilities district. That district has provided financing to over 170 nonprofit arts and science organizations in the area.

Formation of the district was a direct result of declining state and local government support for arts and scientific organizations. The Colorado legislature had ended direct state financial support in 1982, forcing institutions to begin charging admission, and placing pressure on the city/county of Denver to support the major scientific and cultural institutions--the natural history museum, zoo, art museum, and botanical gardens--even though most of the visitors to those facilities were residents of the suburbs and state. In 1983, supporters of the major regional museums began attempts to establish a regional tax support. Proposed statutory authority was rejected by the state legislature in 1986; revised, passed, and signed into law in 1987; and the tax was approved by the voters in 1988.

The legislative declaration of the scientific and cultural facilities district act explains its purpose:

The general assembly hereby finds, determines, and declares that the scientific and cultural facilities located in the state of Colorado are a rich source of knowledge and inspiration to all of the residents of the state, that the preservation and development of such facilities are vital to the cultural and intellectual life of the state, that scientific and cultural facilities are an important factor to the economic well-being of the state, that economic development and tourism are needed to maintain and to promote such facilities, and that creation of scientific and cultural facilities districts will promote the health, safety, and welfare of the residents of the state.

The act defines "cultural facility" as any nonprofit institutional organization or any agency of local government which has as its primary purpose the advancement and preservation of art, music, theater, or dance. "Scientific facilities are nonprofit institutional organizations or local government agencies which have as their primary purpose the advancement and preservation of zoology, botany, or natural history. The definitions exclude state agencies, educational institutions, radio or television broadcasting networks or stations, cable communications systems, newspapers, and magazines.

The state act created the Denver Metropolitan Scientific and Cultural Facilities District with the same boundaries as the existing regional transportation district. The vote on whether the district would be authorized to levy and collect a sales tax to support cultural and scientific facilities was conducted district-wide. The district imposes the tax, distributes the revenues, and reviews recipient organizations annually, but does not exercise any control or direction over those recipients.

The sales tax is collected by the state and remitted to the district monthly. The district pays the direct and indirect costs incurred by the state in administration and collection of the tax. The act limits the districts administrative costs to three-fourths of one percent of the money collected.

The Scientific and Cultural Facilities District is headed by a nine-member board of directors composed of one representative appointed by the county commission of each of the five counties, one representative appointed by the city council of the city and county of Denver, and three gubernatorial appointees. The board reviews applications, distributes funds according to formulae and applications, and allocates the ten percent discretionary funds. Board meetings are open to the public.

The regional sales tax generated about \$14 million in 1989, about \$15 million in 1990, and about \$16 million in 1991. This revenue is allocated to three tiers of beneficiaries. Tier I, composed of the four major regional cultural institutions, receives 65 percent of the revenues, about \$10.4 million in 1991. Tier II gets 25 percent (about \$4 million), and Tier III gets ten percent (the remaining \$1.6 million). Ninety percent of the funds in each tier are fixed, with the remaining ten percent distribution based on regional impact, accessibility, quality, and need.

Tier I institutions are independent, private, nonprofit, 501(c)3 organizations which have their own boards of directors. These institutions charge adult entrance fees of \$3.00, but the art institute waives the admission fees for Colorado residents on Saturdays, and the other three facilities offer eight free days each year to state residents. Table 12 shows the four major institutions and the distribution of the Tier I guaranteed allocation.

Table 12
Denver Scientific and Cultural Facilities District
Tier I Guaranteed Distributions

Natural History Museum	33%
Denver Zoo	26%
Art Museum	26%
Botanical Gardens	<u>15%</u>
Total	90%

Source: Denver Scientific and Cultural Facilities District.

Tier II, composed mainly of performing arts organizations that have operating incomes of \$700,000 or more, receives 25% of the revenues, equal to a uniform sales tax of .025%. This amount is distributed among qualifying organizations by a formula which gives equal weight to the annual operating income and annual paid attendance of the organizations.

Smaller theaters, orchestras, arts councils, and art centers in the six-county region comprise Tier III, which receives ten percent of the revenues, equal to a .010% sales tax. Each of the six participating counties receives a share of Tier III funding based on the percentage of sales tax col-

lected in that county. At the county level, Tier III distributions are made by cultural councils appointed by the county commissioners of counties or by the city council of the city and county of Denver. These cultural councils receive requests and distribute funds.

Baltimore: Annual Appropriations from Nearby Counties

The Baltimore Symphony, museum of art, opera company, regional theater, zoo, and other regional cultural institutions located in the City of Baltimore receive annual budget appropriations from the City of Baltimore and from five nearby counties (Baltimore, Anne Arundel, Howard, Harford, and Carroll). A sixth county government, St. Georges, is also being urged to participate in funding regional cultural institutions.

This regional funding strategy was recommended in a 1982 council of governments task force study, but its success is attributed to the individual efforts of arts groups. Development staff from individual cultural institutions slowly and steadily cultivate county officials, and maintain records of how many county residents use their programs (attendance records are obtained from cards filled out by patrons and from records of school group use). These arts groups plead their cases to each county executive, and base their requests for funds on the regional impact of their cultural institutions. Institutions offer special county days when residents of the specified donor county receive free admission.

Since 1990, county support for regional cultural institutions located in Baltimore has declined very dramatically due to political and economic conditions, reductions in state contributions to county-run programs, taxpayer resistance to high taxes, and competition for public dollars. Although the data are not formally accumulated and reported, it is estimated by the executive director of the Maryland State Arts Council that the total amount of support provided most recently to all cultural institutions by counties was as follows:

Table 13
Estimated County Support for Baltimore Cultural Institutions

Baltimore	\$1,000,000
Anne Arundel	150,000
Howard	150,000
Harford	75,000
Carroll	<u>5,000</u>
Total	\$1,380,000

Source: Maryland State Arts Council

The county budget allocation is a political process. Prior to 1990, when all five county executives were Democrats and the governor was a Democrat who had been mayor of Baltimore county appropriations to Baltimore cultural institutions were a means of pleasing the state executive. With the election of five Republican county executives who had no political affiliation with the governor, the political benefits of cultural appropriations to Baltimore were greatly diminished.

A proposal for a regional tax to support cultural institutions has been defeated in the Maryland state legislature. Although that proposal will be reintroduced, there is no expectation that it will pass.

While recipient organizations are structured in different ways, the Baltimore Museum of Art is a quasi-city agency. The City of Baltimore owns the land and buildings, and guards and maintenance staff are city employees. A private, nonprofit organization headed by a board of trustees owns the art and employs curatorial and development staff.

The St. Louis Metropolitan Zoological Park and Museum District

Prior to 1972, the St. Louis Zoo was financed by the City of St. Louis from a property tax levy of \$0.50 per \$1,000 of equalized value. That financing was insufficient to maintain the zoo, prompting the development of a coalition between the zoo and the St. Louis Art Museum, both of which were heavily patronized by county residents who did not contribute to their support, to develop a city and county district.

The effort to obtain state enabling legislation for a broader base of financial support for the city's zoo and art museum was successful after it was extended to include the Academy of Science, which was located in the county. The original Missouri state act provided that voters of a charter city and adjoining charter county may file petitions for the establishment of a metropolitan zoological park and museum district composed of one or more of the following: a zoological subdistrict; an art museum subdistrict; a museum of science and natural history subdistrict.

In 1971, voters in the City of St. Louis and in St. Louis County approved the establishment of a metropolitan zoological park and museum district by approving millage for all three of the subdistricts on the ballot (voter approval of one or more subdistricts in both the city and the county served to create the district):

- 1.) a zoological park subdistrict with a tax rate not to exceed \$0.40 on each \$1,000 of SEV;
- 2.) an art museum subdistrict with a tax rate not to exceed \$0.40 on each \$1,000 of SEV; and
- 3.) a Museum of Science and Natural History subdistrict with a tax rate not to exceed \$0.10 on each \$1,000 of SEV. This rate could be increased by a separate vote of the people to a rate not in excess of \$0.40 on each \$1,000 of SEV.

The property tax became effective and the district came into existence on January 1, 1972. A later amendment substituted the St. Louis Science Center subdistrict for the science and natural history, subdistrict.

In 1982, the three subdistricts obtained legislative approval for increased tax rates and the Botanical Garden obtained legislative approval to be included as a subdistrict. The following year, voters approved the rate increase and the inclusion of the Botanical Garden as a subdistrict and in 1987, after state legislative approval, voters authorized the Missouri History Museum to become a subdistrict. In 1989, an attempt by the symphony to obtain tax support by being included as a subdistrict was defeated by the voters.

Voters approved millage up to a specific limit (since increased) but the district board, which has a full-time staff of three, determines the actual property tax rate for each subdistrict based on budget requests. These tax rates have been affected by reassessments, changes in state tax law, and required rollbacks. In 1990, the total property tax rate for all subdistricts was \$1.98 per \$1,000 of SEV, which produced about \$27.3 million.

Table 14
St. Louis Metropolitan Zoological Park and Museum District Property Tax Rates

St. Louis Zoological Park	\$0.53
Saint Louis Art Museum	0.53
St. Louis Science Center	0.27
Missouri Botanical Garden	0.27
Missouri Historical Museum	<u>0.38</u>
Total	\$1.98

Source: St. Louis Metropolitan Zoological Park and Museum District.

The 1990 tax revenues and disbursements of the district were as follows:

Table 15
St. Louis Metropolitan Zoological Park and Museum District
1990 Tax Revenues and Disbursements

Receipts:	Amount	Percent
Tax Receipts from City of St. Louis	\$ 5,333,266	19.1%
Tax Receipts from St. Louis County	22,004,298	78.7
Interest on Investments	<u>625,791</u>	<u>2.2</u>
Total Receipts	\$27,963,355	100.0%
Disbursements:		
To Subdistricts:		
Zoological Park	\$ 7,838,983	25.8%
Art Museum	7,930,125	26.1
St. Louis Science Center	4,278,847	14.1
Botanical Garden	4,026,145	13.2
Missouri History Museum	<u>6,179,799</u>	<u>20.3</u>
Total to Subdistricts	\$30,253,899	99.5%
District Operating Expense	<u>156,629</u>	<u>0.5</u>
Total Disbursements	\$30,410,528	100.0%

Source: St. Louis Metropolitan Zoological Park and Museum District.

The district collects the approved property tax and deposits it in separate subdistrict accounts, and may also perform common services such as auditing, accounting, pension servicing, and payroll for subdistricts. The state statute provides that the cost of district operations may not exceed five percent of the total authorized tax revenues received by all subdistricts; that rate was reduced to two percent for 1983 and subsequent years.

The board that governs the district is composed of four qualified voters of the city appointed by the chief executive officer of the city and four qualified voters of the county appointed by the chief executive officer of the county. Board members serve four-year, staggered terms, are not compensated, and may be removed for misconduct or neglect.

Subdistricts are governed by commissions composed of ten members who serve without compensation for four-year, staggered terms. Five of the members are subject to the approval of the

chief executive officer of the city and five are subject to the approval of the chief executive officer of the county. The state law required that members (except ex officio members) of any existing governing board of control previously exercising the functions of the subdistrict became members of the subdistrict commission (i.e., incumbent board members were protected by a grandfather clause). Any remaining members had to be selected from names submitted and nominated by the respective existing governing boards of the institutions. Governing boards remained self-perpetuating, with new members subject to the advice and consent of the chief executive officer of the city or county in which the proposed member resided. Subdistrict commissioners elect members to fill vacancies subject to the advice and consent of the chief executive officer of the city or county in which the proposed commissioner resides. Commissioners may be removed by the legislative body of the city or county for misconduct or neglect of duty.

Subdistricts consist of institutions and places that conform to definitions contained in the statute. All buildings, property, and facilities, as well as obligations, duties, rights, and privileges, of existing publicly owned and operated zoological parks and museums become the property of the applicable subdistrict. Facilities must be kept open to the public, and none charges general admission. Commissions may establish special fees and other charges, and have exclusive control of money collected by the subdistrict, and of the buildings and grounds of the subdistrict. Commissions appoint and remove directors and necessary assistants and set their compensation. All employees, appointees, and officers of affected publicly owned and operated museums and zoological parks automatically become employees of the subdistrict "and such appointees' and employees' seniority, pension, salaries, wages and fringe benefits shall be equal to or better than that existing at the time of the establishment of the subdistrict insofar as may be possible." Commissions report capital needs to the board of the district, which places requests for capital funding on the ballot. Voter approval of debt for specific subdistricts is required. The total indebtedness of the district may not exceed five percent of taxable tangible property in the district.

Two other agencies provide funding to cultural institutions in St. Louis. One of them, the Regional Arts Council, receives between \$2 million and \$2.5 million from a tourism tax and dispenses this dedicated tax revenue to arts organizations and to individuals.

The Arts and Education Council of Greater St. Louis is funded by individuals and corporations and receives no government funding. This organization solicits support from private companies and their employees, and from teachers and other school employees. Some of the larger employers process payroll deductions for donations to the Arts and Education Council, which was formed in 1963 by education and arts groups that had been separated from the United Way process. This year, the annual fund drive has a \$2.5 million goal, and is being focused more on individual donors to try to reduce the dependence of the organization on the decisions of the leaders of those 20 large corporations that have in the past provided about 40 percent of all donations. In earlier years, the council built up reserves which are now being utilized; the council has not achieved its fund raising goals in the last few years.

The council this year will distribute about \$2 million to 150 potential recipient organizations. Ninety percent of the donations will be used to support the ten major cultural institutions that are assured annual funds for operations, and about \$200,000 will be allocated by committee to approximately 55 of the 140 smaller members who may compete for grants. Major beneficiaries of the private arts fund raising council include the Repertory Theater of St. Louis; KETC/Channel 9; Opera Theater of St. Louis; Young Audiences of St. Louis; and Dance St. Louis.

New York City Department of Cultural Affairs

The budget of the New York City Department of Cultural Affairs declined from \$80 million in 1990 to \$58 million in 1992. Although there is no city tax dedicated to cultural purposes, the general fund appropriation has been maintained at a significant level based on the economic impact of cultural institutions on the city. The Department of Cultural Affairs, Cultural Institutions Unit budget provides operating support for 32 of the city's leading cultural institutions (art and science museums, historical societies, arts centers, theaters, concert halls, zoos, and botanical gardens), each of which receives a line item appropriation in the city budget ranging from \$0.5 million to \$17 million, which may represent from three percent to 85 percent of the budget for these quasi city agencies.

These cultural institutions generally occupy city-owned land or buildings, a situation that dates to the 19th Century, when the city entered into agreements with the American Museum of Natural History and the Metropolitan Museum of Art to contribute land and construct buildings to house their collections. State legislation authorized the city to allocate annual sums for maintenance of the city-owned facilities, and private, nonprofit corporations were chartered to collect and organize the art objects. City Department of Cultural Affairs grants pay recipient institutions' energy bills and other operating costs including security and maintenance, administration, education programs, and capital improvements. Institutions may also receive grants from other city agencies and from New York State.

While the relationship between the city government and sane institutions is more than a century old, several small cultural institutions obtained city funding in the early 1980s. The most recent additions have been minority oriented institutions.

Department of Cultural Affairs staff members attend board meetings of city funded institutions, serve as liaison between the cultural community and governmental agencies, and monitor the operations and programs of the funded institutions. Other units of the department provide funds for capital improvements and maintenance at cultural institutions and other organizations housed in city-owned buildings, provide program funding in the form of public service contracts that enable the arts community to provide cultural experiences throughout the city, and assist the cultural community in obtaining affordable living, working, and performance space. Numerous other programs include a unique effort that directs tax deductible contributions of used and excess property (office furniture, construction materials, pianos, telephone equipment, computers, vehicles, fabric, video tapes, air conditioners, etc.) to nonprofit cultural organizations.

Boston: Reimbursement for Services

The museums and symphony in Boston are private, nonprofit institutions which receive no direct city support except tax exemption. This (lack of) relationship goes back to the 1850s, when the art museum was founded. At that time, the city offered support but leaders of the art institute, who wanted no city government interference, rejected the offer.

Article 46, Section 2, of the Articles of Amendment to the Massachusetts State Constitution contains a prohibition on direct grants to private organizations.

Sec. 2. No grant, appropriation or use of public money or property or loan of credit shall be made or authorized by the commonwealth or any political subdivi-

sion thereof for the purpose of founding, maintaining or aiding any infirmary, hospital, institution, primary or secondary school, or charitable or religious undertaking which is not publicly owned and under the exclusive control, order and supervision of public officers or public agents authorized by the commonwealth or federal authority or both, except that appropriations may be made for the maintenance and support of the Soldiers' Home in Massachusetts and for free public libraries in any city or town, and to carry out legal obligations, if any, already entered into; and no such grant, appropriation or use of public money or property or loan of public credit shall be made for the purpose of founding, maintaining or aiding any church, religious denomination or society. Nothing herein contained shall be construed to prevent the commonwealth from making grants-in-aid to private educational institutions or to students or parents or guardians of students attending such institutions.

In order to circumvent this prohibition, public subsidies to cultural organizations take the form of reimbursements for services. The cultural organizations are required to spend their own money first (small organizations may have to borrow from private lending institutions) and apply for reimbursement.

Grants which subsidized visits of school children to the symphony and museums were eliminated in the first year of the state's fiscal crisis; some have since been reinstated.

The Regional Metropolitan District, an agency of Massachusetts state government, ran two zoos one of which is in Boston, but those have within the last year been turned over to private management (the state continues to own the facilities). The zoos still get a significant portion of their appropriations from the state, but private management allows them to avoid civil service restrictions and provides more leeway for obtaining private support.

Portland: Metropolitan Cooperation

In Portland, Oregon, the zoo, basketball coliseum, and convention center are the responsibility of the Metropolitan Services District, which is also responsible for growth control, solid waste and recycling, and transportation and water quality planning. The "Metro" covers parts of three counties and is governed by an elected executive officer and 12-member elected council. Revenues are derived entirely from various charges for service, mostly tipping fees at landfills.

Portland's Metropolitan Arts Commission, established in 1973, is by its charter 60 percent funded by the City of Portland and 40 percent funded by the county, and is charged with "furthering the development of arts in Portland and Multnomah County and with increasing the availability of arts to the public." The 16-member commission (ten appointed by the mayor and six appointed by the county chair) submits its budget request to both the city and county. The total fiscal 1993 budget should be about \$1.3 million, of which \$650,000 will be distributed to 17 eligible major and mid-sized cultural institutions (these organizations have applied and been approved for participation in this program). These distributions are proportional to the eligible income of the participating organizations, which vary in size from the symphony's \$7.4 million, to about \$67,000. The commission also depends on panels to allocate project grants to small arts organizations, and provides technical assistance grants to individuals and small arts organizations.

Philadelphia Museum of Art: Split Responsibility

The City of Philadelphia owns the land and buildings of the Philadelphia Museum of Art, but the art collection and operation of the museum were transferred by city council resolution to a private nonprofit corporation in the 1920s. Because it owns the land and buildings, the city provides city employees for security, custodial, and building maintenance purposes, annually provides \$1 million to \$2 million for capital improvements and major repairs (the city manages these projects), pays for utility costs, and contributes \$400,000 annually for other building operations costs. The 501(c)3 corporation that operates the museum is headed by a self-perpetuating board of trustees, to which both the president and director report. The president manages administrative, financial, and personnel operations; the director manages museum curatorial functions. Although the governor of Pennsylvania and the mayor of Philadelphia are honorary trustees, there is no other formal or informal arrangement for city involvement in the operations that are under the auspices of the private corporation.

The Philadelphia Cultural Alliance created the Philadelphia Cultural Trust to replace “Class 500” grants made by the city to cultural organizations. The city process had been considered politicized, and was discontinued several years ago as a result of city fiscal problems. The trust received \$40,000, half of the profit from the mayor’s inaugural ball (the other half went to benefit AIDS).

The Chicago Park District and Cook County Forest Preserve District

An 1893 Illinois law granted park districts that had populations over 500,000 and that included museums or aquariums, authorization to levy a tax of up to \$1.50 per \$1,000 of the full, fair cash value of property in the district (the tax limit was set at \$0.30 per \$1,000 in park districts of less than 500,000 population). The proceeds of that tax were “for the purpose of establishing, acquiring, completing, erecting, enlarging, ornamenting, building, rebuilding, rehabilitating, improving, operating, maintaining and caring for such aquarium and museum or museums and the buildings and grounds thereof.”

The Chicago Park District, established in 1934, combined 22 separate park districts into a single entity. It retained the right to impose a property tax of \$1.50 per \$1,000 for support of aquariums and museums, and received new authorization to impose up to \$6.60 per \$1,000 for general purposes, plus other rates for specific purposes. Total revenues are now about \$220 million, of which 75 percent are tax revenues and 25 percent are earned income. The park district is authorized to issue unlimited tax bonds, generally with voter approval, but in 1985, the state law was amended to allow the district to issue \$58 million in bonds without voter approval.

The district is administered by the Chicago Park District Commission, composed of eight members appointed by the mayor to five-year terms. The commission may issue ordinances, orders, and resolutions.

The Chicago Park District had about 3,500 permanent, full-time employees, and about 7,000 total employees at the height of the summer season. Employees of the district are civil servants. Employees of the aquarium and museums supported by the district are not employees of the district.

The Chicago Park District operates one of the largest municipal park systems in the world, with 560 parks, 253 field houses (recreation centers), nine harbors, and six golf courses on 7,309 acres

of land including about 25 miles of property fronting Lake Michigan. The 1991 actual operating revenues and expenditures were about \$141 million; total long term debt outstanding was about \$302 million.

The district passes through \$36 million of tax collections from the aquarium and museum levy to nine major, private, nonprofit cultural institutions: Art Institute of Chicago; Museum of Science and Industry ; Field Museum of Natural History; Alder Planetarium; Shedd Aquarium; Chicago Academy of Science; Chicago Historical Society; DuSable Museum; and Puerto Rican Museum. Each of these institutions also conducts independent fund raising activities.

Illinois law also allows the creation of forest preserve districts; a separate act governs those districts in counties of more than three million population. The county board of commissioners is the forest preserve district board. Forest preserve districts such as the Forest Preserve District of Cook County may acquire

lands containing one or more natural forests or parts thereof or land or lands connecting such forests or parts thereof, or land capable of being forested, for the purpose of protecting and preserving the flora, fauna, and scenic beauties with such district, and to restore, restock, protect and preserve the natural forests and such lands together with their flora and fauna, as nearly as may be, in their natural state and condition, for the purpose of the education, pleasure, and recreation of the public.

The forest preserve district may levy taxes for general corporate purposes of up to \$0.60 per \$1,000 of the value of property in the district. Additional taxes of up to \$0.21 per \$1,000 may be levied for constructing, restoring, reconditioning, and reconstructing improvements and for the development of the forests and lands. These districts may operate zoological parks, for which they may levy an operating tax not to exceed \$0.35 per \$1,000, and botanical gardens, for which they may levy an operating tax not to exceed \$0.15 per \$1,000.

Montana: County Option Museum Tax and State Cultural Trust

The Yellowstone Art Center and three other smaller museums in Billings, Montana, are supported in part through the proceeds from an optional county museum tax. The state statute that originally allowed imposition of one-half mill for county-owned museums, and now allows the county commission to impose, without voter approval, a property tax levy of up to \$2.00 per \$1,000 for a variety of cultural facilities that are owned by a county, a municipality, or a private, nonprofit organization, has been in effect since 1945.

The Yellowstone Art Center is located in a county-owned former library building on county land, which the county is in the process of transferring to the museum. The art center is not a county government function, but five of the 18 trustees are appointed by the county commission, and the county distribution of museum support millage has funded about ten percent of the museum's annual operating budget (current county funding is \$74,270 of the \$680,000 operating budget) ever since the art center opened in 1964. The county commission determines the rate of the levy (currently seven-eighths of a mill), as well as the distribution of the proceeds among the four museums. The distribution is not based on the size of the various museums, budgets, but seems to attempt to compensate those facilities that are less successful in raising funds from other sources.

In 1979, the State of Montana created the Cultural Trust an endowment of \$6.2 million built from a surtax on coal mined in the state. The earnings from the endowment provide funding for projects recommended by an arts review panel. Grants are appropriated by the state legislature to underwrite special projects, provide operational support, support capital expenditures, and offer challenge grants for endowment development.

San Francisco: Museums as Part of City Government

In San Francisco the Asian Art Museum of San Francisco is a separate department of the city-county government pursuant to an agreement with Avery Brundage, whose personal Asian art collection formed the basis of the museum. The bequest of art objects to the city/county was made with the understanding that the government would support the museum. As a city/county department, the Asian Art Museum must compete with other departments in the budget process for general fund appropriations. The nonprofit Asian Art Foundation provides about two-thirds of the budget of the museum from private sources; all special exhibits are privately financed.

The Fine Arts Museums of San Francisco comprise another department of the City and County of San Francisco and are also supported out of the general funds of the city. and the zoological gardens and the arboretum are part of the recreation and parks department of the city and county of San Francisco.

Summary of Lessons from Other Cities

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; grandfathering the members of governing boards of cultural institutions into new structures; and dedication of part of cultural funding resources for the support of medium sized and smaller cultural institutions.

CHAPTER IV THE PRIVATE SUPPORT OPTIONS

“Privatization” can refer to either of two strategies: contracting out and load shedding. Contracting out involves government contracting with a nongovernment entity to provide a service that government employees had previously performed. Load shedding refers to the elimination by a government unit of a tax supported function, which the private or nonprofit sector may or may not assume. Privatization does not require selling city-owned facilities to private investors. Rather, privatization may describe the process of assigning responsibility for raising operating funds and for operating facilities and programs to a private nonprofit organization. Privatization could be accomplished by assigning fund raising and operating responsibility to existing friends and founders societies or by contracting with a low bidder in a competitive process.

Government ownership, funding, and operation of cultural institutions theoretically insures that those facilities will be available and responsive to the public. Modification or elimination of the government role raises issues of accessibility and accountability, but limitations on government resources may force an examination of privatization options. On a more basic level, 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 immediately related to public safety, health, and education. Limitations on existing governmental resources and demands that those resources be used for services essential to the protection of life, liberty, and property, focus attention on the privatization options.

Arguments for tax support of cultural institutions were presented in Chapter V. There are also arguments in favor of privatization of cultural institutions. Those who reject the appropriateness of government support for cultural facilities may assert that public support for the arts and culture requires a transfer of income in the wrong direction, from poor and average taxpayers to wealthy museum and concert patrons. They may also justify their position by asserting that dependence on taxpayers’ dollars and government appropriations affects the quality, originality, and subject matter of artists and organizations that compete for that support. They may question the allocation process that provides public funds to various organizations and individuals, and they may refer to art that is incomprehensible or offensive to the average taxpayer who is forced to pay for it. Allocation of any tax dollars to the arts and cultural institutions, or use of tax dollars to fund particular projects, especially those that are sexually explicit or that are offensive to established religious or moral beliefs, are challenged as an abuse of government by some taxpayers. Opponents of public funding may assert that funding has been more responsive to a narrow special interest group (e.g., the elitist arts community), than to the mass of citizens from whom the taxes were extracted.

Provision of Service v Production of Service

The conceptual difference between provision of public services and production of those services is basic to this analysis. Provision refers to the determination of which goods and services to provide, the source and amount of revenues, and the quantity and quality of service. Production refers to the utilization of resources to make goods or services. A unit of government may insure the provision of a service that is produced by an independent, for profit or nonprofit entity, regardless of whether that, government provides tax support. Privatization of city-owned cultural

institutions could involve the city government retaining ownership of facilities and contracting with private, nonprofit organizations to operate those facilities.

Competition and Profits

For profit and nonprofit organizations may provide services more efficiently and effectively, without the coercive basis of taxation, and without the censorship controversy that attaches to public funding.

For profit organizations must deliver those goods and services for which people will pay more than the cost of production, forcing for profit organizations to be responsive to what people need and want and also forcing them to develop efficient ways of providing the desired products and services. For profit organizations can produce very sophisticated goods and services for the most highly educated and discriminating consumers, but generally the amount of these very fine goods and services produced will not exceed the willingness and ability of people to purchase them. The most vociferous proponents of privatization would argue that “highbrow” art and music should compete in the marketplace with other forms of entertainment, and would emphasize that some of those other forms are very profitable.

The Nonprofit Sector

Nonprofit organizations, which may be commercial or donative, serve a public purpose and fill the niche between for profit and government providers. Nonprofit organizations, whether charitable, religious, scientific, literary, or educational* are classified under section 501(c)3 of the federal tax code. The government provides an indirect subsidy by exempting these organizations from paying some or all taxes. While nonprofits may generate a surplus of revenues over expenses, they may not distribute profits to owners. They may receive donations from and enter into contracts with governmental units.

The largest nonprofit sectors are hospitals and social services, but many museums, libraries, and other cultural institutions are also included in the nonprofit sector. The most recent data available indicate that the percentage of nonprofit employment in museums and libraries in Michigan is less than that of the United States as a whole. This may well be due to the fact that in our state, a larger proportion of museums and libraries are government institutions. According to Bureau of the Census data, in 1990 Michigan had 69 nonprofit museum organizations including art galleries; historical, educational, and cultural attractions; arboreta; zoological and botanical gardens (Standard Industrial Classification 84) employing a total of 1,959 people. Most of these establishments were very small: 25 reported from one to four employees and another 14 reported from five to nine employees.

A Non-Profit Cultural Organizations Needs Assessment Survey prepared for Concerned Citizens for the Arts in Michigan by Market Opinion Research in September 1990 reported the results of a mail survey sent to 1,325 “nonprofit” cultural organizations in Michigan (the survey included organizations owned by governments). Survey recipients included 378 public libraries; 171 historical museums: societies, or houses; 109 historic preservation organizations; 75 theater arts organizations; 68 art museums, galleries, or centers; 87 symphonies or orchestras; 63 arts councils; seven zoological parks; 28 dance organizations; and 34 chorale, choir, or chamber organizations. Of the 387 survey respondents, at least 54 percent are owned by a unit of government and presumably receive some tax support. Another 44 percent are private nonprofit 501(c)3 organizations.

That needs assessment survey reported total capital needs of \$824.0 million and total endowment needs of \$313.6 million (total capital and endowment of \$1,137.6 million) for the 29 percent of surveyed organizations that responded, for the five-year period following the survey. There may be some questions as to the definition of “need” in needs assessment surveys and as to whether such a survey also measures unjustifiable expansion goals and unrealistic targets.

Independent, Nonprofit Status for City of Detroit Cultural Institutions

Public support in the form of budget appropriations has been aggressively sought by many cultural organizations in Michigan, for understandable reasons. But as essential needs compete for limited public resources, total independence for those cultural institutional including those that are now part of city government, should be explored.

The use of tax revenues to support cultural institutions may have insulated those tax supported institutions from the necessity to be responsive to public needs and desires, and from the need to raise money independently. User fees, contributions, and endowments are critical bases of support for nonprofit organizations.

The fact that a cultural institution is organized as a public entity may lead potential donors to expect that tax support will be made available as needed, and to blame public officials when needs go unmet. Reorganization as a private, nonprofit institution may convince potential donors that tax support is not available and that their contributions are necessary to insure survival. It may also be true that potential donors do not believe that contributions to publicly operated organizations are used as efficiently and effectively as those made to private organizations. It is probable that private fund raising activities are not generally emphasized as much in publicly supported institutions (although very significant efforts may be expended in the governmental budget allocation process), and that reorganization would force fund raising, and activities to support fund raising, to a much higher priority. Private, nonprofit cultural institutions that fail to obtain sufficient support from user fees and contributions cannot survive.

User Fees Support for user fees is based on the proposition that those who receive the benefit should pay the price. In the public sector, dependence on user fees where possible allows scarce tax dollars to be reserved for essential services that cannot possibly pay their own way. Dependence on user fees also helps insure that services will be developed only when demand warrants. Fees are especially valuable when there might be significant waste if the product or service were furnished without a charge. Reliance on user fees is confined to areas where the use of the product or service can be measured and where collection is not too difficult.

It is unrealistic to assert that complete reliance on user fees is a viable option for all cultural institutions. The Association of Art Museum Directors 1992 Statistical Survey reports that total operating expenses per visitor at the Detroit Institute of Arts was over \$37. User fees set to capture that amount would virtually eliminate attendance. The growth in the DIA budget from a \$5 million level in the mid-1970s to the \$25 million to \$35 million level in the mid-1980s was fueled by state appropriations and the increase in Founders Society contributions. It may be possible to operate the museum on a much reduced budget (the Arts Department city budget for 1991-92 was \$29.4 million, of which \$20.1 million was for operations; the 1992-93 budget is only \$11.7 million). This would increase the probability that user fees could offset a larger proportion of costs.

The budget for the Zoological Department declined from \$12.5 million (\$8.3 million for operations) in 1991-92 to \$9.8 million (\$8.1 million for operations) in 1992-93, and budgeted revenues from admission fees and other earned income were increased from \$3.7 million to \$4.6 million. In contrast, the 1992-93 Historical Department budget projects that only \$25,000 will be received in user fees to offset the department's \$3.4 million of costs.

Non-governmental cultural organizations are much more dependent on admission fees, forcing those organizations to consider carefully the commercial effects of their programs. Private, non-profit institutions such as Henry Ford Museum and Greenfield Village and Cranbrook earn 60 percent to 70 percent of their revenues from operations. This dependence on operating receipts insures responsiveness and accountability, qualities that may be less pronounced in public, and especially in bureaucratic, organizations.

User fees seem fair, and every effort should be made to improve the proportion of cultural institutions' expenditures that are offset by earned income. But user fees also limit accessibility to those who are unable to afford the cost. Social utility and indirect economic benefits may demand that a product or service be supported by other private or public resources.

Contributions The value individuals place on cultural activities may lead them to provide voluntary support for selected organizations. An institutionalized approach to securing voluntary contributions to city government cultural institutions is provided by founders and friends societies.

Contributions of the Founders Society to the operations of the DIA are "off budget," so neither the city budget nor the annual financial report reflect the totality of activity at the art institute.

It is interesting to note that for the DIA, Founders Society support has been a more dependable source of revenues than have city general fund contributions, which were substantially reduced when state equity grants were obtained, and have exceeded the city contribution every year since 1977.

Table 16
Detroit Institute of Arts
Revenues Other than Gifts of Works of Art and Sale of Bonds

Fiscal Year	DIA Revenues	State Appropriation	Founders Contribution*	DIA Income	City Contribution
1973	\$ 2,456,902		\$ 807,895	\$ 285,984	\$ 1,363,043
1974	4,024,416	\$ 25,000	1,609,772	472,332	1,917,312
1975**	4,833,096	147,880	1,533,000	513,000	2,163,216
1976**	5,639,998	680,000	1,512,504	681,158	2,422,305
1977	5,659,751	3,500,000	1,228,448	583,500	347,803
1978	6,864,000	4,349,000	1,440,000	676,000	399,000
1979	11,810,800	7,100,000	4,219,000	423,000	68,800
1980	17,266,900	10,035,000	7,100,100	63,000	68,800
1981	21,041,200	10,535,000	10,387,400	50,000	68,800
1982	19,030,400	12,435,000	6,486,600	40,000	68,800
1983	21,988,900	14,748,000	7,132,100	40,000	68,800
1984	24,522,100	16,048,000	8,392,800	12,500	68,800
1985	24,548,500	16,048,000	6,806,900	1,624,800	68,800
1986	26,403,300	16,048,000	7,093,400	2,461,900	800,000
1987	28,582,643	16,248,000	10,537,906	1,296,737	500,000
1988	27,581,996	16,326,000	9,345,935	1,409,461	500,000
1989	35,933,976	16,448,000	17,469,003	1,516,973	500,000
1990	34,162,331	16,030,800	15,901,795	1,723,736	500,000
1991	30,771,871	13,611,383	14,150,541	2,509,947	500,000
1992	26,903,847	9,648,800	15,634,880	1,120,167	500,000
1993	26,548,600	9,648,800	15,643,900	855,900	400,000

* Founders Society contribution excludes gifts of works of art.

**Federal CETA Grants provided \$476,000 in FY 1975 and \$344,031 in FY 1976.

Source: Economic Growth Council of Detroit Agenda of December 16, 1977; Senate Fiscal Agency, 1989 Statistical Report; Senate Fiscal Agency, 1992 Statistical Report.

In four of the last five years, Founders Society contributions to endowments, restricted funds, and operating revenues were larger than the annual state grants. Total Founders Society contributions are categorized as follows:

Table 17
Founders Society Contributions to the DIA

Fiscal Year	Total Contributions	Additions to Endowments	Additions to Restricted Funds	Operating Revenues	Gifts of Art
1987	\$11,399,663	\$ 297,456	\$6,661,953	\$3,578,497	\$ 861,757
1988	10,280,660	992,611	4,202,747	4,150,577	934,725
1989	25,898,763	4,299,489	7,746,424	5,423,090	8,429,760
1990	16,449,438	4,388,947	6,435,577	5,077,271	547,643
1991	14,356,716	2,616,927	5,674,965	5,858,649	206,175
1992	30,838,695	1,013,821	6,516,887	8,104,172	15,203,815
1993	16,143,900	1,000,000	5,000,000	9,643,900	500,000

Source: Senate Fiscal Agency, 1992 Statistical Report.

Other regional cultural institutions have not been nearly as successful at obtaining voluntary support such as the Detroit Institute of Arts. Leaders of the DIA believe that still more voluntary support is necessary, but the record of Founders Society contributions demonstrates that very substantial voluntary support exists and that donations are and have been an important source of operating and capital funds. It is assumed that founders and friends groups will continue to provide critical voluntary support to individual cultural institutions and organizations. While the total dollar amount is somewhat less, the DIA has been able to raise nearly half of its operating budget from gifts and private grants.

Consolidated Fund Raising The reduced state and city support for cultural institutions has served to intensify the pressure on private donors to increase their support and to extend that support to more potential recipients. Similar pressure is being exerted by social welfare agencies and other nonprofit organizations. This has brought into sharper focus a phenomenon that has been referred to as a “cultural civil war” in which the strongest cultural institutions seek to insure their own survival. This is sometimes done at the expense of other institutions that have less powerful or influential patrons. Increasing the emphasis on fund raising activities by individual institutions is inevitable, but alternate ways of structuring this support should also be considered. One way to relieve pressure on donors and to protect a range of cultural institutions is to consolidate fund raising efforts.

According to an article in The Chronicle of Philanthropy (“Raising More by Getting Rid of Fund Raisers,” May 5, 1992), at least 64 communities have fund raising coalitions for the arts. These coalitions appear to be patterned after the United Way approach. At least one of those coalitions prohibits its members from raising operating funds independently: the United Arts Fund of Central Florida consolidated development operations of member organizations to create a more cost effective fund raising structure, but member organizations are required to raise a portion of the donations that support the consolidated fund.

The amounts raised by united arts funds in 1991 do not appear to be in the range needed to fully substitute for public cultural funding in southeast Michigan. The largest amount of collections reported was \$16.3 million by the Music Center of Los Angeles County; second was \$6.3 million in Milwaukee; third was \$5.3 million by Lincoln Center. Service reductions, retention of existing tax support, or development of new tax support would probably be necessary if efforts in metropolitan Detroit were not significantly more productive. Nonetheless, a united arts fund for southeast Michigan cultural institutions could be explored.

This effort could consolidate fund raising staffs from member organizations; conduct an annual campaign; accept corporate, foundation, and individual contributions (including payroll deductions); assist member organizations to use resources wisely and well; foster communication among cultural institutions; and relieve donor individuals and corporations of the responsibility of selecting among competing cultural organizations. The allocation of donations made to the united arts fund among member organizations could be based on determinations of need, a pre-established formula, attendance, organizations’ ability to generate other income, or some combination of methods.

It should be noted that a consolidated fund raising strategy may weaken the bonds between individual donors and the specific art forms that are important to those individuals, and thereby diminish the emotional rewards of contributing. It would therefore appear reasonable to allow participat-

ing cultural institutions to continue contacts between staff and major donors, and to allow those individuals, foundations, and corporations that have a preference to target their donations.

This approach would compete with fund raising for social service and other agencies, and might be opposed by them as well as by those cultural institutions that are most successful at obtaining private support. However, a united arts fund strategy does emphasize the similarities between arts organizations and social service organizations in terms of their claims on tax and philanthropic support, and it would allow corporations and other donors to contribute without forcing them to make difficult choices among possible recipients.

Endowment Funds Revenues that have been invested for the purpose of generating interest income to be used for operations may provide the basis for some stability in annual operations. Even that stability is relative: fluctuating interest rates affect endowment fund income. Nevertheless, the development of endowment funds is an important objective of most public and non-profit cultural institutions.

Endowment funds can be created from earned revenues (although few if any local cultural organizations have sufficient earned revenues relative to costs to allow this option), from donations (bequests are the traditional source), or from tax revenues (taxpayers and elected officials traditionally object to paying more tax dollars than are needed for current operations).

Major cultural institutions in this region have exhibited differing abilities to develop endowment funds. Cranbrook Educational Community has demonstrated that efforts to develop endowment funding can be successful in southeast Michigan. Of Detroit city government institutions, only the DIA has had success in developing an endowment fund. Status as a municipal general fund department may reduce the level of effort to develop endowment funds or may inhibit the success of efforts to develop those resources.

Data in Table 18 confirm that art museums with large endowment funds generally receive very little government support. There are 20 museums in the U.S. that reported endowment funds larger than the DIA's in 1992. Eleven of these art museums received no city government support, five received between \$3,000 and \$182,000, and four received city government support ranging from \$3.6 million to \$9.6 million.

Of the 38 museums that reported current market value of endowment funds over \$20 million, only the DIA received such significant state support, although the Art Institute of Chicago received \$1.1 million from the State of Illinois. Several cities provided subsidies to art museums that have large endowment funds the Metropolitan Museum of Art, Art Institute of Chicago, Philadelphia Museum of Art, Minneapolis Institute of Arts, Fine Arts Museums of San Francisco, and Brooklyn Museum all received more than \$1 million in city support.

Table 18
Art Museums
Current Market Value of Endowment Fund and Government Support: 1991
(Dollars in Millions)

Rank*	Art Museum	Endowment	Government Support			City
		Fund	Federal	State	County	
1	Metropolitan Museum of Art	\$461.0	\$ 0.1	\$ 0.7	\$ -	\$9.6
2	Cleveland Museum of Art	228.7	0.1	0.3	-	-
3	National Gallery of Art	186.0	48.5	-	-	-
4	Colonial Williamsburg Foundation	185.0	0.1	-	-	-
5	Boston Museum of Fine Arts	149.4	0.5	0.1	-	0.0
6	Indianapolis Museum of Art	135.2	0.1	0.2	-	0.2
7	Winterthur Museum and Gardens	132.9	0.1	-	-	-
8	Houston Museum of Fine Arts	122.6	0.3	0.0	-	0.2
9	Art Institute of Chicago	118.5	0.1	1.1	6.5	-
10	Frick Collection	117.7	0.0	-	-	-
11	Clark Art Institute	106.6	-	-	-	-
12	Harvard University Art Museums	97.0	0.2	-	-	-
13	Museum of Modern Art	84.1	0.2	0.6	-	0.0
14	Walker Art Center	78.3	0.8	0.2	0.0	-
15	Huntington Library and Art Gallery	66.5	0.0	0.3	-	-
16	Munson-Williams-Proctor Art Institute	65.7	-	-	-	-
17	Philadelphia Museum of Art	65.6	0.3	0.4	-	8.1
18	Minneapolis Institute of Arts	52.4	0.2	0.2	-	3.6
19	Nelson-Atkins Museum of Art	52.4	0.0	-	-	0.0
20	Toledo Museum of Art	52.1	0.2	0.2	-	-
21	Detroit Institute of Arts	44.3	0.4	13.4	-	0.5
22	Yale University Art Gallery	39.8	0.1	0.0	-	0.0
23	Cincinnati Art Museum	38.2	0.0	0.2	-	0.0
24	Santa Barbara Museum of Art	36.4	0.2	-	-	-
25	Pierpont Morgan Library	36.1	0.1	0.1	-	-
26	Wadsworth Atheneum	35.6	-	0.1	-	0.1
27	Fine Arts Museums of San Francisco	34.9	0.3	0.2	-	4.5
28	Walters Art Gallery	32.8	0.3	0.2	0.2	0.9
29	Modern Art Museum of Fort Worth	31.8	-	-	-	0.4
30	Los Angeles County Museum of Art	31.4	0.6	0.1	14.4	-
31	Isabella-Stewart Gardner Museum	31.1	-	0.0	-	-
32	Brooklyn Museum	27.9	0.4	0.6	-	6.7
33	Dallas Museum of Art	27.3	0.1	0.0	-	0.7
34	Albright-Knox Art Gallery	26.8	0.1	0.1	0.5	0.0
35	Museum of Contemporary Art	26.7	0.3	0.1	-	0.1
36	San Diego Museum of Art	25.0	-	0.0	-	0.5
37	Honolulu Academy of Arts	24.4	0.1	0.1	-	-
38	Worcester Art Museum	20.8	0.0	-	-	0.0

*By current market value of endowment fund.

Source: The Association of Art Museum Directors, 1992 Statistical Survey.

It has been suggested that the DIA could sell part of its collection and use the revenues to enlarge its endowment fund. The sale of items deaccessioned from museum collections is not uncommon; receipts are used to purchase other items for the collection. The sale of art assets for any purpose other than reinvesting in the collection is considered unacceptable in the museum community. However, the sale of art assets to enlarge the endowment fund, proceeds from which could insure the survival of the institution, is a possibility.

Other Detroit based cultural institutions that are not part of city government also have relatively small endowment funds. At August 31, 1991, the Detroit Symphony Orchestra Hall, Inc. reported the balance in its endowment fund as \$19.2 million, substantially below levels for comparable orchestras.

A proposal has been developed by an arts advocacy group and a conservation club that would raise taxes on tobacco, beer, wine, and perhaps liquor, and dedicate 40 percent of the revenues to the Michigan Council for Arts and Cultural Affairs (MCACA) and 40 percent to the Parks Division of the state Department of Natural Resources. The remaining 20 percent of the new revenues would create an endowment fund, interest from which would be used to support the Michigan Council for Arts and Cultural Affairs and the Parks Division of the Department of Natural Resources.

Another proposal would establish a voluntary state income tax check off, proceeds from which would flow either to MCACA for administration and grants or to an arts endowment fund.

There are some dangers associated with placing an arts and cultural endowment fund in state government. Borrowing from the fund for other, more essential state services would be very tempting, especially during times of financial distress. The possibility could also exist that distributions from the fund might be based on political considerations.

It can be argued that the development of endowment funds for cultural organizations should be the responsibility of those organizations or of a voluntary united cultural fund raising effort. In these ways the principal and interest can be protected for the purposes intended by donors and voters.

It is likely that endowment funds will continue to come from the private sector. Private sector leadership and education of potential donors must become more effective if endowment funds are to play an increasing role in supporting local arts and cultural institutions.