CHAPTER V
OTHER GOVERNMENTAL SUPPORT OPTIONS FOR SOUTHEAST MICHIGAN

The civic infrastructure of a community is defined in large part by the cultural institutions that the community, through individual and group effort, 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 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.

Those who support the use of tax funding for cultural institutions argue that art and culture are so important to the quality of life that government funding is necessary, appropriate and responsible. Arts advocates assert that museums and arts programs are an important part of community development efforts and cultural institutions have been developing outreach programs to serve school, inner city, and rural audiences to broaden their base of support. Economic impact studies have been commissioned to demonstrate the value of arts institutes, museums, symphonies, and other institutions.

Arts advocates have had considerable success in persuading Detroit and Michigan elected officials to use public resources to support the arts and cultural institutions but both the city and the state are struggling with structural imbalances in their budgets, forcing them to refocus resources. Cultural funding has not been high on their list of relative priorities. There are other levels of governments, and other sources of public funding, that could be considered.

Wayne County Funding

Transfer of facilities and responsibilities from the central city to the county enlarges the tax base supporting those facilities and responsibilities; in 1992, the SEV of Detroit was $5.7 billion, less than one quarter of the $25.8 billion SEV of Wayne County. In 1968, air pollution control was transferred from the city government to Wayne County; in 1975, tuberculosis control was transferred from the city to the county.

The Association of Art Museum Directors' 1992 Statistical Survey lists 41 art museums that reported county government support. The four museums that each received over $1 million from county government were county or city/county museums (Los Angeles, St. Louis, Denver, and San Francisco). Eleven art museums reported receiving between $100,000 and $1 million from county sources, and 26 received less than $100,000.

Under a charter form of government with an elected county executive Wayne County government has resolved many of the problems that plagued it prior to 1980. The county's November 30, 1991 Comprehensive Annual Financial Report indicated a $6 million unreserved, undesignated general fund balance. The county government has undertaken the expansion of Detroit Metropolitan Airport, is considering constructing a new baseball stadium, and has taken an active roll in other economic development efforts.

The county commission could allocate arts funding in various ways: an appropriation from the county's general fund to Detroit to support city-owned cultural facilities; a contract between the

county and city whereby the county reimbursed the city for out-county residents who utilized city cultural institutions; an agreement among the city, county, and state to use taxes on part of the growth in county SEV to replace declining state support for city facilities; transfer of ownership of cultural institutions from the city to the county; or transfer of operations from the city to the county, with the city retaining ownership. The county commission could also set aside county funds for a grant program for independent, nonprofit arts organizations. Another potential financing strategy could force institutions to cover operating costs from fees and donations, but would finance capital costs from county bond issues approved by county voters.

City-County Consolidation Shifting the burden of supporting cultural institutions to the county to take advantage of an expanded tax base introduces a larger issue. Traditional city/counties include Baltimore, Denver, New Orleans, New York, Philadelphia, St. Louis, San Francisco, and Boston. One of the ways fiscally distressed central cities have enlarged their tax base is through consolidation, the merger of the general government units within a county. Recent consolidations have occurred in Athens and Clark County, Georgia; Lynchburg and Moore County, Tennessee; and Indianapolis and Marion County, Indiana.

In Wayne County, more attention has historically been paid to city-county separation than to the possibility of consolidation (see City-County Separation: Detroit and Wayne County , a report (#261) to the Wayne County Efficiency Task Force by Citizens Research Council dated March 1980). Because of differences in the racial composition of the city and the rest of the county, consolidation would have major implications for minority voting power, and could violate the federal Voting Rights Act.

One rationale for city county consolidation assumes that the county is the dominant, identifiable economic entity, which is not the case in southeast Michigan. An examination of regional trends in population, employment, income, and property tax base reveals that Wayne County has retained economic activity better than the city, but has not experienced the kind of growth that has occurred in Oakland and Macomb Counties.

Table 19 reflects the changes in population, employment, income, and property tax base in the three-county region. In 1960, Detroit had 44 percent of the population in the three-county area, but only 26 percent in 1990. In 1960, Detroit had 46 percent of the employment in the three-county region, and only 19 percent in 1990. The 1960 U.S. Census did not compute per capita income, but in 1970, Detroit per capita income was 71 percent of that in Oakland County. In 1990, Detroit per capita income was only 45 percent of Oakland County per capita income. Detroit had 52 percent of the three-county region's property tax base in 1960, but in 1990, only nine percent of the region's SEV was in Detroit.

Wayne County would provide a larger economic base for regional cultural institutions than would the City of Detroit. Expanding that support base beyond Wayne County to include Oakland and Macomb Counties would include the growth that has occurred in those areas.

Table 19
Economic Indicators in the Three-County Region

Population

	1960	1970	1980	1990
Detroit	1,670,144	1,514,063	1,203,368	1,027,974
Remainder Wayne	996,153	1,156,305	1,134,523	1,083,713
Oakland	690,259	907,871	1,011,793	1,083,592
Macomb	405,804	626,204	694,600	717,400

Employment

	1960	1970	1980	1990
Detroit	612,295	561,184	394,707	335,462
Remainder Wayne	341,664	437,020	485,983	508,269
Oakland	240,861	344,320	467,706	557,134
Macomb	133,915	228,429	305,242	355,676

Per Capita Income

	1960	1970	1980	1990
Detroit	N/A	$3,227	$6,215	$9,443
Remainder Wayne	N/A	3,869	9,085	16,405
Oakland	N/A	4,515	10,658	21,125
Macomb	N/A	3,605	8,655	16,187

State Equalized Value (in millions)

	1960	1970	1980	1990
Detroit	$4,937.4	$5,306.3	$5,211.3	$5,550.6
Remainder Wayne	2,646.5	6,202.9	11,398.5	18,386.6
Oakland	1,351.8	4,734.0	11,645.4	25,716.6
Macomb	640.5	2,746.5	6,588.6	12,009.6

Source: Bureau of the Census, various reports; State Tax Commission, various reports.

Tri-County Tax Support

Efforts could be made to obtain support from Wayne, Oakland, and Macomb County governments. This support could be in the form of direct grants, intergovernmental contracts, or joint administration.

County Grants to Cultural Institutions Efforts could be made to persuade the counties surrounding the City of Detroit to allocate general funds to the support of specific cultural institutions. For example, an excellent case could be made for Oakland County support for the main zoo, which is located in Oakland County but clearly serves all of the residents of southeast

Michigan. Oakland County officials should also recognize the importance of the symphony to the quality of life of Oakland County residents: an estimated 65 to 70 percent of Saturday night Detroit Symphony Orchestra subscription holders are from Oakland County, and the symphony's summer Meadow Brook series has been presented in Oakland County.

Support of the arts by county governments in the region would not require a vote of the people, but would require that a convincing case be made each year to all of the county governments whose residents are served by the regional cultural institutions. Grants from various governments in southeast Michigan could also support a regional arts council that in turn supported smaller cultural organizations or could create the nucleus of a pool from which grants were made to smaller arts organizations by county representatives.

Intergovernmental Contracts Regional support could be obtained for cultural institutions that are part of Detroit city government through the development of intergovernmental contracts between the city, as provider, and the counties, municipalities, or school districts in this region, as purchasers. The effect of this strategy would be very similar to the state equity grant which provided money to Detroit to operate cultural facilities. No new level of government or taxing authority would be created, and Detroit would retain ownership and control of the facilities. Money paid to Detroit by counties or other municipalities would come from existing taxing authority or other revenues, and would be appropriated by the various legislative bodies in recognition of the cultural and economic value of Detroit cultural facilities. Contracts could contain performance criteria relating to hours and scope of service, cost controls, programs, and other matters of importance to other local governments and school districts.

Intergovernmental contracts involving counties in southeast Michigan could form the basis of a pool from which grants were made to private cultural organizations in recognition of the contribution those organizations make to the quality of life and the economic strength of the region.

Joint Administration Article VII, Section 28, of the present state Constitution allows joint administration by local units of government of functions or powers which each would have the authority to perform separately.

> The legislature by general law shall authorize two or more counties, townships, cities, villages or districts, or any combination thereof among other things to: enter into contractual undertakings or agreements with one another or with the state or with any combination thereof for the joint administration of any of the functions or powers which each would have the power to perform separately; share the costs and responsibilities of functions and services with one another or with the state or with any combination thereof which each would have the power to perform separately; transfer functions or responsibilities to one another or any combination thereof upon the consent of each unit involved; cooperate with one another and with state government; lend their credit to one another or any combination thereof as provided by law in connection with any authorized publicly owned undertaking.

A contractual agreement among the City of Detroit and other governmental units in southeast Michigan to form a cooperative association to support and operate public arts and cultural amenities could be accomplished without a vote of the people. Cooperative library services have been provided within the region through such associations. Ownership of these cultural institu-

tions could, but need not be transferred to the new regional association. The mayor of Detroit, county executives in Wayne and Oakland, and the chairman of the Macomb County Board of Commissioners could appoint the board or commission of the cultural district association, with the approval of their respective legislative bodies. Representation on the board and financial contributions could be based on population, SEV, number or proportion of attendance, or some other measure or combination of measures.

The problem with all of these arrangements, of course, is that the funds transferred by the counties would come from within their current taxing authority, and would reduce the resources available for their existing programs and services. At present, it is questionable whether the majority of residents of any southeast Michigan county would find this shift of existing local resources to support cultural institutions in the City of Detroit acceptable.

Regional Relationships

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.

This could be accomplished in a number of ways, including a news voter approved tax or revenues from tax base sharing on the growth in state equalized value in the region. Administration, coordination, or oversight of a regional authority could come from the state; by direct election or appointment of the governing body that provides service or coordinates those agencies that provide service; by agreement among existing units of government; through a regional council of governments that represents all major local units; or some other structure.

Relationship of the City and Suburbs Major cultural institutions located in Detroit serve residents of the southeast Michigan region. In addition, the economic health of the region is tied to the economic health of Detroit.

A study titled "City and Suburban Growth: Substitutes or Complements?," written by Richard Voith and published by the Federal Reserve Bank of Philadelphia in the September-October 1992 edition of Business Review, makes the point that city and suburban growth are complementary and that decline in central cities is likely to be associated with relatively slow growth in suburbs. Out migration from the central city increases the concentration of lower income people; increases costs associated with high crime, poor health, and unproductive workers; reduces the central cities ability to provide basic public services; reduces the availability to businesses of benefits from having many businesses in close proximity (agglomeration economies); and lessens the attractiveness of regional amenities located in the central city.

> The short-and long-run consequences of these spillover effects are likely to be quite different. Initially, city decline is likely to reduce city amenities, providing further impetus to move to the suburbs. Thus, in the short run, urban decline might be associated With suburban growth. Spillovers from city decline, how-

> ever, may adversely affect the whole region, causing people and firms to move to more desirable regions. Eventually, a new equilibrium will be achieved with lower land prices and fewer people in the metropolitan area. The resultant equilibrium might be one in which the city is but a fraction of its former size, and the suburbs, though larger, are smaller than they would have been.

The article addresses the Detroit metropolitan area specifically:

> In terms of population growth, the Detroit metropolitan area is not an example of robust suburban growth coexisting with severe urban decline. In fact, Detroit's suburban growth ranked 21st among our sample of 28 Northeast and North Central metropolitan areas....Although suburban Detroit income growth was anemic relative to other suburbs, it was large enough to make the suburbs appear increasingly prosperous when compared with the city of Detroit....We examined employment growth in cities and suburbs during the period from 1976 to 1986 and once again found evidence of complementary....Suburban house values tend to fluctuate with the fortunes of the city....

1977 Economic Growth Council of Detroit Recommendations There is a sense of deja vu in this study of the financing of Detroit cultural institutions. The same issues were raised in the mid-1970s when, as a result of long-term fiscal trends in the city and of a downturn in the local and national economies, Detroit officials determined that the city could no longer afford to maintain its previous level of support for cultural departments.

In order to help resolve the city's financial problems, the mayor appointed a citizens committee called the Economic Growth Council of Detroit. In December of 1977, the staff of the Economic Growth Council submitted to their board a series of position papers from the services committee of the expenditures task force. The services committee of the expenditures task force was charged with:

> 1) examining selected services that either may be uniquely provided by the City of Detroit or that may be benefiting a regional or statewide population; and 2) determining whether responsibility for financing these services might more appropriately be the responsibility of another level of government (county, regional authority or state).

The committee's position papers concerned the financing of the Detroit Institute of Arts, the Historical Department, Main Library, and the Zoological Park; all of the position papers sought to justify and recommended formalizing the already significant state financing of those city operations. Position papers stated that the largest proportion of the population served by the institutions were not city residents, and that these institutions were unique statewide assets. "Annual State appropriations should be considered as support of a resource with a statewide orientation, and not viewed as a subsidy to the City of Detroit." The following statement in the position paper on the DIA is typical of the conclusions drawn for all of the institutions, except the main historical museum which was "programmatically oriented toward the history of Detroit."

> Total State funding of operational expenses would relieve the City of Detroit of financial responsibility for operating the DIA, provide the broadest and most secure financial base for the institution, and allow for the greatest possible expan-

> sion of programs and services. This alternative would provide the most complete recognition of the uniqueness and statewide orientation of the institution and would fully address equity considerations.

Regional funding of any of the institutions was rejected.

> Development of a regional financing plan to cover non-resident costs, however, may encounter political resistance and financial and administrative impracticalities. Further, this approach would not address use of the institution by outstate and out-of-state residents.

These Economic Growth Council position papers emphasized the value of the general fixed assets of the institutions, which had been financed by the City of Detroit and by private donors. The City of Detroit's continued provision of the existing physical assets of the institutions to all users was considered sufficient to justify continued city ownership, control and operation, even though "continued funding of , operations by the City of Detroit is neither justifiable or equitable."

There is an assumption inherent in the recommendations that the only way that control and operation could legitimately be transferred from the city would be upon sale at market value of the physical assets. However, there is nothing to prevent the city from transferring ownership for a nominal fee to insure that the public--both Detroit residents and non-Detroiters--continue to have access to amenities located in Detroit. Nor is there any reason why continued city ownership of physical assets cannot be combined with operation by a private, nonprofit corporation.

In addition, the assertion that it is unfair for the City of Detroit government to support regional cultural amenities patronized by non-residents ignores the fact that much of Detroit city government has been and continues to be funded by people who do not live in the city. In the 1992-93 budget, state revenue sharing and other revenues from the state provide a quarter of the city's general fund revenues. Detroit particularly benefits from the state formula for the distribution of state income and single business taxes to cities, villages, and townships. That relative tax effort formula insures that Detroit receives about half of the total amount distributed statewide even though only 11 percent of the states population resides in Detroit. In 1990, $73.9 million of the municipal income tax was paid by non-residents who worked in the city. State funds and non-resident income taxes together provide over 30 percent of Detroit city government's general fund revenues.

Although Detroit sought and receives financial support for city-owned cultural institutions directly from the state government, continuation of that support is not assured. In metropolitan areas across the country the desire to preserve and protect museums, zoos, and other cultural institutions has led to development of regional solutions.

Special Districts

Special district governments are independent, special purpose government units that are separate entities and have substantial fiscal and administrative independence, according to the U.S. Department of Commerce, Bureau of the Census. The number of special purpose governments increased by 12 percent from 1987 to 1992, to 33,131. Special districts have been established for a wide variety of purposes, but over 91 percent perform a single function. The preliminary 1992 Census of Governments reports that there were 1,212 parks and recreation districts and 1,063 li-

brary districts nationwide. Data is not yet available on the revenue sources of special districts in 1992, but the 1987 data indicated that special districts obtained operating revenues from various sources and some districts had more than one revenue source.

Table 20
Revenue Sources of Special Function Governments in Percentages: 1987
(Excluding School Districts)

District Wide Property Taxes	38%
Grants, Shared Taxes, Rentals, and Reimbursements from Other Governments	27
Service Charges and Sales	21
Special Assessments	12
Other Taxes Imposed by the District	2

Source: Bureau of the Census, Census of Governments, Government Organization, 1987.

The primary benefit to be derived from the establishment of a regional authority is the creation of a structure to deal with regional problems. A number of other areas have established regional districts to resolve the problem of providing financial support for cultural institutions.

Michigan Constitutional and Statutory Provisions Article VII, Section 27, of 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. Wherever possible, such additional forms of government or authorities shall be designed to perform multipurpose functions rather than a single function.

Michigan statutes currently authorize various kinds of regional authorities. The metropolitan council act (Public Act 292 of 1989) authorizes two or more local government units in a metropolitan area of less than one million population to create a metropolitan council. The articles of incorporation adopted by a metropolitan council may require each participating local government unit to pay to the council an amount not to exceed 0.2 mills times that unit's SEV. The articles may also authorize the council, with voter approval, to levy an ad valorem property tax of up to one-half mill. A metropolitan council organized under PA 292 "may plan, promote, finances issue bonds for, acquire, improve, enlarge, extend, own, construct, replace, or contract for public improvements and services including , parks, museums, zoos, wildlife sanctuaries, and recreational facilities."

The preliminary Census of Governments, Government Organization report for 1992 lists 280 special district governments in Michigan. Although the available 1992 data is not complete, in 1987, 16 of 250 special district governments had authority to impose a property tax. The Michigan Constitution exempts charter authorities from the 15 and 50 mill property tax limits.

Regional authorities generally perform proprietary functions that are protected from competition by regulation and by the costs to a new producer of entering the market. These proprietary functions include providing water, sewerage, electrical power, transportation, airports, sports arenas

and stadia, and parks, in contrast to purely governmental functions such as public education, welfare, and public safety. User fees generally play an important but not necessarily exclusive part in funding proprietary services; regional authorities may have the power to tax, or may be subsidized by general purpose governments.

Some major cultural institutions may be compared to proprietary authorities in their provision of unique services, the prohibitive costs to a competitor to duplicate the service, and the inability to rely entirely on user fees. Cultural institutions frequently require the support of one or more patrons-public, private, or both--to insure financial viability.

A City of Detroit Regional Services Department The Detroit Water and Sewerage Department is a de facto regional authority in that it provides regional services and is supported by the region through user fees. The department is headed by a seven-member board appointed by the mayor; at least four members must be residents of the city, but up to three members may be nonresidents. The board appoints, with the approval of the mayor, the director and deputy director of the department. The Water and Sewerage Department is a monopoly that produces an essential product. Because costs to duplicate the system would be enormous and because state law allows it, user fees can be set at the level required to insure the integrity of the system.

A strategy might be developed to organize a Regional Services Department of the city, with divisions of Water, Sewerage, Transportation, Arts, Zoological, and perhaps Historical and Parks. This reorganization would require amendment of the city charter. The question of whether there should be a general charter revision will be submitted to the voters of the City of Detroit at the general election on November 2, 1993, in compliance with Section 9-403 of the current Charter.

The combination of regional services into one department could expand the funding base of city-owned cultural institutions. Water and sewer service could be a “cash cow” and rates or surcharges might be set at a level sufficient to offset some or all of the cost of operating all Regional Services Department activities. It should be noted that there is no logical relationship between the revenue source and the purpose. Water and sewer rate increases used for cultural support would be, in effect, a regional tax obtained without voter approval. Not every community in southeast Michigan purchases water and sewerage services from the Detroit department, but the department does serve approximately 3.8 million people in southeast Michigan. In New York, a number of regional activities are financed by revenues from the bridges and tunnels.

The city budget for 1992-93 lists water and sewerage revenues from other than sale of bonds and earnings on investments as $324.4 million. The percentage increases in water and sewerage charges that would be necessary to fund the entire proposed Regional Services Department would depend on the number of regional services included and the extent of funding for those services. In order to generate $26.3 million of additional revenues, equal to the 1992-93 state equity grants and net tax cost of City of Detroit cultural programs, water and sewerage rates would have to be increased by about 8.1 percent. Water and sewer rates are not subject to the city’s current five percent utility users’ excise tax. Suburban communities would be expected to mount strong opposition to this strategy to develop a multipurpose regional authority controlled by the City of Detroit and financed by water and sewer users.

Establishment of a New, Independent, Multipurpose Regional District Service areas that do not correspond to traditional city, township, village, or county boundaries justify creating a government organizational structure that matches those service areas to the appropriate financing

base. Assigning responsibility for all or several regional services and facilities to one regional authority would limit the complexity that would result from assigning each regional service to a separate authority, could result in economies of scale, and would simplify issues of accountability and responsibility.

A regional services district, separate and distinct from Detroit city government, with responsibility for public transportation, water and sewerage, major cultural institutions, and any other appropriate regional services and amenities could be established. This multipurpose regional authority could request voter approval of a regional tax that would supplement user charges and other revenues to support public transportation* cultural institutions, and other regional services. Although such a sweeping recommendation is beyond the reach of this more limited analysis it makes good sense in a region as interrelated and extensive as southeast Michigan.

Communities in southeast Michigan have had very limited success in developing cooperative approaches to solving regional problems: the Huron Clinton Metropolitan Authority operates regional parks; the Southeast Michigan Council of Governments provides regional planning and other functions; and the Detroit Water and Sewerage Department sells its services throughout the region. Other problems that are regional in nature have proven intractable. There is a regional transportation agency, the Suburban Mobility Authority for Regional Transit (SMART), and a separate City of Detroit Department of Transportation (DDOT). Attempts to merge the systems have not been successful. Indeed, there are many public services that are regional in scope and impact, and that could logically be assigned to a multipurpose regional authority.

The Existing Regional Parks Authority The Huron Clinton Metropolitan Authority (HCMA) was approved by the voters in 1940 and organized as a public corporation in 1942, pursuant to a 1939 local act:

> to permit the counties of Wayne, Washtenaw, Livingston, Oakland, and Macomb, or certain of such counties, to join in a metropolitan district for planning, promoting, and/or acquiring, constructing, owning, developing, maintaining and operating, either within or without their limits, parks, connecting drives, and/or limited access highways; to provide for the assessment, levy, collection and return of taxes therefor; to provide for the issuance of revenue bonds....

The act defines parks as

> areas of land, with or without water, developed and used for public recreational purposes, including landscaped tracts, picnic grounds, playgrounds, athletic fields, camps, foot, bicycle and bridle paths, motor vehicle drives, wildlife sanctuaries, **museums, zoological and botanical gardens,** facilities for bathing, boating, hunting and fishing, as well as **other recreational facilities for the use and benefit of the public** (emphasis added).

The Huron Clinton Metropolitan Authority, which has a 1993 budget of $33.6 million including $18.0 million of property tax revenue, owns and operates 13 metroparks covering 23,000 acres. HCMA is governed by a board of commissioners. Each member county board of commissioners elects one member of the authority commission, and the governor appoints two members of the authority commission. The authority, which is a special charter authority outside state constitutional tax limitations, may impose a tax rate of not more than one-quarter mill (that rate has been

rolled back to .2303 mills); those taxes are assessed, levied, collected, and returned as county taxes.

Significant benefits could be derived from using the existing regional parks authority as the vehicle for providing regional support of major cultural institutions: consistency of general purpose and resources, economics of scale, an integrated approach to regional recreation and culture issues, better coordination, and a more easily understood structure for voters. The existing multicounty parks authority is a logical vehicle to use to expand the tax base of support for parks, museums, and zoological parks currently owned by the City of Detroit, and could also provide grants for private, nonprofit arts and cultural institutions. The statutory authority for HCMA has been in place for 50 years, the organization already exists, and Huron Clinton parks are clean, safe, and well run Some amendment of the statute would be necessary, (composition of the board could be expanded to include a representative from any city of over 500,000 population; additional taxing authority would be required) but amendment of an existing statute may be considerably easier than adoption of a new statute to establish a new regional authority. Approval of a higher tax rate for an existing regional authority may also be more feasible than approval of new taxing authority for an organization which might be interpreted as having been created primarily to bail out the City of Detroit, or, from another perspective, to steal the city's jewels.

The proposal that the Huron Clinton Metropolitan Authority assume management responsibility for certain City of Detroit parks (particularly Belle Isle) and other facilities is a very old one. The suggestion has in the past foundered for various reasons: the authority's requirement that its existing one quarter mill property tax, be increased; disagreements centering on entrance fees and the city's insistence on free access and evening access; as well as the city's reluctance to relinquish control of the "people's park."

One objection to HCMA assuming control of facilities other than parks has been that the authority has no experience in operating museums, zoos, or anything other than parks, however, there is no reason that existing staff of museums, zoos, and other institutions which might be considered for inclusion in the authority could not continue to provide the daily management and direction of those facilities. Arguing that HCMA should not include the DIA because it manages no other art museums is as invalid as arguing that the City of Detroit should not include the DIA because it manages no other art museums.

There is another way to structure HCMA involvement. If required statutory changes and voter approval for an increase in the HCMA property tax rate or other tax source could be obtained, HCMA could contract with the City and with the governing boards of other institutions to provide regional cultural services. HCMA would then collect additional tax revenues from its service district and use those revenues to subsidize the operation of city cultural facilities and to subsidize the symphony and other major cultural institutions. As with other possible structures, a portion of revenues could be designated for contracts with or grants to smaller arts organizations.

Establishment of a New, Single Purpose Regional Authority A new, single purpose, regional authority could be better focused, have a 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. The large number of single purpose districts in the nation would seem to demonstrate that special purpose, multicounty authorities can constitute an acceptable financing and/or service delivery system. 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.

HCMA was approved by the voters half a century ago; other attempts to develop regional cooperation have met with mixed success. Metro Detroit has not been able to resolve some critical regional issues, but cultural and arts funding may be the one area where an agreement can be forged--an opportunity to prove that regional solutions work.

The Issue of Fragmentation It is appropriate to consider questions of efficiency and the cost impact of establishing regional authorities which increase the number of governments. Fragmentation of governmental services already exists in southeast Michigan. There are numerous incorporated communities within the region: counties overlap cities and townships; intermediate school districts overlap K-12 school districts; special districts and school districts overlap city, village, township, and county borders. A new authority would contribute to the existing complexity of governmental structure in southeast Michigan.

Fragmentation in the form of numerous local general purpose governments has been blamed as a primary cause of metropolitan problems--the flight of the wealthy from central cities to further suburbs, resulting in some suburbs having very substantial resources, and in the central city had some older suburbs having very substantial need. In this case, the establishment or expansion of a regional authority could be a major step toward reducing disparities and fractional political processes. The effort to gain regional support for regional assets may provide a lesson in thinking and acting in the best interests of the metropolitan area. Successful negotiations over ownership, governance, access, and financing may promote coordination and understanding between groups that have been suspicious of each other's motives and hostile to each other's success.

Earlier literature on governmental organization equated fragmentation with inefficiency. But a February 1992 report by the Advisory Commission on Intergovernmental Relations (ACIR), Metropolitan Organization, The Allegheny County Case, states "Increasingly, research indicates that fragmented metropolitan areas can be more efficient in providing public services, Metropolitan areas that are more fragmented in jurisdictional terms tend to have more complex patterns of organization, developing a variety of multilevel or multiscale arrangements.... Evidence has begun to emerge that complex metropolitan areas may be more efficient than those that are organized more simply, whether the latter are highly consolidated or highly fragmented." (Allegheny County was chosen for study because in 1982 it had 323 governments, about 2.23 governments for every 10,000 residents.)

Preliminary data from the Bureau of the Census, 1992 Census of Governments indicates that there are a total of 2,727 governmental units in Michigan. This includes 83 counties, 534 municipal governments, 1,242 township governments, 587 school districts, and 280 special districts. The 1992 state total exceeds the 2,699 governmental units reported in 1987 by 28. Detail on the number of governmental units by county for 1992 is not available, but Table 21 shows the distribution of governmental units in the seven-county area in 1987, the last year for which Bureau of the Census detail is available. in 1987, there were 238 governmental units in the three-count)(region, and 396 in the seven-county region.

Table 21
Local Governments and Public School Districts in the Seven-County Region: 1987

	Total	County	Municipal	Township	School Districts	Special Districts
Wayne	89	1	34	10	36	8
Oakland	95	1	39	21	29	5
Macomb	54	1	15	l2	22	4
Sub Total	238	3	88	43	87	17
Washtenaw	45	1	88	20	11	5
Livingston	31	1	4	16	5	5
Monroe	38	1	8	15	10	4
St. Clair	44	1	8	23	8	4
Grand Total	396	7	116	117	121	35

Source: Bureau of the Census, 1987 Census of Governments.

CHAPTER VI
FINANCING A SOUTHEAST MICHIGAN REGIONAL CULTURAL AUTHORITY

As noted, the primary benefit of establishing a regional authority is creation of a structure to deal with regional problems. A secondary benefit may be to obtain new tax revenues for the support of one or more specific functions. A major question that must be addressed is whether any tax increase is in the long term best interest of the region.

There may be considerable risk in depending wholly on a regional funding solution: the inability to secure public approval for basic financing plans due to voter dissatisfaction with the scope of program, voter unwillingness to assume new tax burdens, dissatisfaction with existing services or locations, doubts about certain technical aspects of the proposed program, opposition of certain groups, weak public relations effort, or questions of basic need or equity. Of equal concern is adoption of a tax base that proves inadequate because it does not grow with inflation, changes in technology, or changes in consumption of the services produced.

Participating Institutions

If a regional public funding alternative is proposed, one of the first issues that must be addressed is which institutions will be eligible to receive assistance. It is assumed that the leadership of institutions that have received state equity funding or state or local arts grants in the past, and that believe that state support will continue to erode, would want to participate in a regional funding strategy. For those institutions that are a part of city government, that decision will rest not at the departmental level, but with the elected officials of the city.

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. Not all institutions that have received state, equity funding have the same degree of appeal to the voters who would have to approve a public funding alternative. The Detroit Institute of Arts is the most influential of the city-owned regional cultural institutions. Very substantial and politically useful support is delivered by affluent arts connoisseurs, arts students, and the broader community of people with some appreciation of art. The zoo in Royal Oak attracts large numbers of people, mostly families with children. Belle Isle, which is comparable to a regional park in size and diversity of offerings, is a people's park intensively used by Detroit residents. The City of Detroit historical museums are not well known; Henry Ford Museum and Greenfield Village are the premier historical museums in southeast Michigan. The Detroit Symphony may have a relatively narrow base of support, but symphony patrons have considerable financial and political resources. Smaller arts organizations by definition serve smaller audiences and have fewer resources. Inclusion of diverse facilities such as the DIA, zoo, symphony, and Belle Isle would broaden the clientele base and thereby the base of support.

The question of who owns and who operates the cultural facilities may have a major impact on the willingness of voters to approve tax support for cultural institutions. If the DIA, zoos, historical museums, and Belle Isle remain part of the city's general fund, regional tax support will be a direct subsidy to the City of Detroit. Institutions that are operated independent of Detroit city government may be more likely to obtain regional voter support.

Including cultural facilities outside the City of Detroit could improve the chances of regional voter approval in southeast Michigan. Guaranteeing that part of the revenues raised would be

distributed to smaller, local organizations, As in the Denver example, might also improve the chances of regional voter approval in southeast Michigan.

Support for Smaller Arts Organizations The effects of state reductions in the Detroit equity grant program have received considerable attention, but many smaller arts organizations face very severe financial problems. The reorganization of the state arts council and the elimination of the Detroit Council of the Arts Department may represent a movement away from the strong public commitment to arts organizations that appeared in the 1960s and 170s. The proposed centralization of all state arts appropriations in the Michigan Council for Arts and Cultural Affairs and redirection away from organizational support and to project funding would sharpen the competition between the largest cultural institutions and the smaller organizations.

Most of the strategies discussed in this examination could easily be structured to provide financial support to smaller arts organizations by dedicating a portion or portions of available funds to organizations with smaller budgets and smaller audiences. This kind of financial support for smaller organizations is much more probable of implementation if it is specified in the enabling statute or charter of a special taxing authority. The ballot proposal submitted to the voters could specify that some percent of tax revenues raised would be allocated for distribution to smaller arts organizations.

Unless a specified portion of revenues is earmarked for smaller arts organizations, it is possible that the major institutions with their influential patrons and sophisticated staffs could monopolize all available resources. Potential problems with such earmarking include the possible opposition of the major arts organizations; the method of distribution; the relative ease of selling support for the largest and most popular cultural institutions and the relative difficulty of selling support for the smaller, more obscure organizations; the amount of resources that would be made available to smaller cultural organizations; and possible weaknesses in financial management of some smaller organizations.

Care should be taken to structure financial assistance to insure that these smaller organizations not become too dependent on a single external source of funding or insulated from their natural audiences. This could be accomplished by basing appropriations on the attendance and the amount of earned revenues and contributions generated by the smaller organizations, to insure that the product being supported by public funds had an audience independent of the public sector. This approach might limit funding to those arts organizations that could raise a specified amount on their own, or might match all revenues over a certain amount for organizations that met criteria that defined them as cultural organizations.

Tax Support Required

Any debate on the source of tax support for regional cultural institutions must address the amount of tax revenues required. The approximate amount of state cultural grants made to metropolitan Detroit institutions prior to the state cuts may be a useful benchmark to use in evaluating possible revenue sources. Table 22 shows the peak of state funding for cultural institutions and activities in southeast Michigan. The 1992-93 appropriation was to have been the same as was allocated in 1991-92, but some amounts were reduced as a result of a state executive order issued to help balance the state budget.

Table 22
State Cultural Grants to the Metropolitan Detroit Community
1991-92 Compared to 1990-91

	1990-91 Original Appropriation	1990-91 Final Appropriation	1991-92 Appropriation
Detroit Institute of Arts	$16,448,000	$13,624,200	$9,648,800
Detroit Historical Museums	3,500,000	2,899,100	2,053,300
Detroit Zoo	2,500,000	2,070,800	1,466,600
Belle Isle	2,766,200	2,291,130	1,622,165
Edison Institute	410,000	356,280	117,300
Detroit Symphony Orchestra	5,554,800	4,760,700	1,759,900
Motown Museum	115,000	110,2000	0
Detroit Main Library	7,146,000	6,488,600	5,988,600
Detroit Branch Libraries	1,200,000	1,090,000	0
Arts Grants	4,852,565	3,750,400	N/A
Detroit Science Center	N/A	333,800	0
Cranbrook	N/A	123,700	0
Highland Park Performing Arts	50,000	30,000	0
Afro-American Center	115,000	104,420	0
Fort Wayne Visitor & Info. Center	80,000	72,640	0
Henry Ford Estates-Fairlane Manor	30,000	27,240	0
Holocaust Center	115,000	104,420	0
Meadow Brook Hall	60,000	54,480	0
Preservation Wayne	35,000	31,780	0
Total	$44,977,565	$38,324,390	$22,656,665

Source: State Department of Management and Budget.

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 collections. The peak state support for regional cultural institutions and activities was about $45 million. For purposes of comparison only, the analyses of various tax rates that follow will use a target revenue of $50 million.

If city facilities and collections were transferred to a regional authority, responsibility for repayment of any outstanding bonded debt for those facilities could also be transferred. Alternatively, the authority could reimburse the city for depreciation on the buildings.

Geographic Area of a Regional Authority

Definition of authority boundaries should address the service region, the tax bases and the probability of voter approval. It is clear that tax support from the broader base of Wayne County would be more fair and more productive than the unlikely re-establishment of reliance solely on the City of Detroit, which is already taxing at the legal maximum rates of property, municipal income, and utility users' excise taxes. Because some of the cultural amenities that have in the

past received state cultural grants and that might in the future qualify for regional funding are located in Oakland County (Detroit Zoo, Meadow Brook Hall, Cranbrook, Holocaust Center) and because many of the patrons of cultural institutions are residents of Oakland County, it is also clear that a tax base that included that wealthier, faster growing county would be advantageous. Inclusion of Macomb, the other large, fast growing county, with its cultural amenities and patrons, would be superior.

It may be difficult to match the boundaries of a proposed regional authority with the service area of major cultural institutions, but the smaller counties would add relatively little to the regional tax base, and taxpayer resistance in those counties could argue against including them in the initial strategy to establish a regional authority. In a region composed of Wayne, Oakland, Macomb, Saint Clair, Washtenaw, Livingston, and Monroe Counties, with a combined SEV of $80.3 billion, the three largest counties (Wayne, Oakland, and Macomb) together comprise 82 percent of that property tax base.

Tax Options

There are several kinds of taxes that could be considered as a basis for regional funding of cultural institutions, including increments to the local property tax, the state sales tax or income tax, new selected local sales taxes, or new taxes on gross receipts of specific businesses. The rates, application, and bases of some of these taxes are constrained by existing state constitutional provisions that can be changed only by statewide vote. Other taxes could be implemented after changes in state statutes and local voter approval

The tax rate required to produce a specific amount of revenues will vary depending on the size of the tax base.

Table 23
Collections from Major Michigan State Revenues: 1990-91

	Not Collections (in millions)
Personal Income Tax	$4,385.4
Single Business Tax	1,573.7
Transportation Tax	1,206.0
Sales Tax	2,671.9
Lottery	471.9
Wine/Beer/Liquor	175.9

Source: Senate Fiscal Agency.

In addition to state revenues listed in Table 23, a total of $8.6 billion of local property taxes were levied in 1991, as well as municipal income taxes and utility taxes.

An ideal solution would be to find a 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 or rates. A regional tax that was collected by counties or by the state government and remitted monthly would be best for ease of collection and taxpayer compliance. Collections that can be

"piggybacked" on an existing tax would also save administrative costs. The ideal tax would keep pace with inflation and would not be one on which there is already heavy reliance.

As noted previously, the particular source of funding for regional cultural institutions is a matter to be resolved through negotiation and the political process. It is useful, however, to discuss the various options, to provide the data that are available on those options, and where possible to develop estimates of the tax rates that would be required were one of those options adopted.

Property Tax As we have seen, the property tax is the most widely used revenue source for special purpose governments. Property tax rates are not comparable among states because property tax bases are not comparable. Assessment ratios on various classes of property vary among states.

In Michigan, the property tax is the traditional source of revenues for cities, villages. townships, counties, and school districts. Property tax levies grow with property improvements and new construction that is not abated, and with increases in market value of existing taxable property. State constitutional limits on the rate of the property tax have been eroded by legislative actions and court decisions.

A district-wide property tax would insure that all property owners, including businesses, contribute to the support of regional cultural amenities. The existing property tax in Michigan is already high compared to other states, but the state homestead property tax exemption transfers some of the burden of local property taxes to the state income tax and property taxes are deductible for federal income tax purposes.

The property tax base of the City of Detroit has remained relatively stable in nominal terms for decades, although in real (adjusted for inflation) terms, the 1990 state equalized value (SEV) of taxable property in the city was one third of the 1970 value.

Table 24
City of Detroit State Equalized Values (in millions)

	Nominal SEV	Real (Deflated) SEV
1970	$5,306.3	$5,306.3
1975	5,804.0	4,258.7
1980*	5,211.3	2,413.4
1985*	5,208.1	1,925.2
1990*	5,550.6	1,701.4

*Excludes inventories valued at $718.5 million and exempted by PA 234 of 1975.

Source: State Tax Commission; CRC Calculations.

Detroit also reports property valued at $381.5 million on the industrial facilities tax roll and $47.4 million on the commercial facilities tax roll.

Table 25 shows the percentage SEV growth in Wayne County, which includes Detroit, has been much less than the growth in other counties in the region. The SEV of Oakland County surpassed that of Wayne County in 1988.

Table 25
State Equalized Values of Southeast Michigan Counties
(in millions)

	Wayne	Oakland	Macomb	Washtenaw	Monroe	St. Clair	Livingston
1983	$18,071	$14,011	$7,704	$3,318	$1,988	$1,933	$1,277
1984	18,069	14,409	7,839	3,371	2,093	1,976	1,284
1985	18,051	15,320	8,025	3,467	2,190	2,165	1,316
1986	18,454	16,514	8,416	3,581	2,439	2,264	1,355
1987	19,206	18,372	8,988	3,811	2,611	2,294	1,431
1988	20,407	20,835	9,920	4,230	2,725	2,370	1,579
1989	22,009	23,395	10,975	4,750	2,858	2,487	1,787
1990	23,937	25,717	12,010	5,390	3,061	2,688	2,081
1991	25,431	27,640	12,873	5,882	3,249	2,828	2,391
1992	25,803	28,141	13,199	5,991	3,340	2,891	2,476
Ten-Year Growth	42.8%	100.9%	71.3%	80.6%	72.8%	49.6%	93.9%

Source: State Tax Commission; CRC Calculations.

A one-mill property tax ($1 for each $1,000 of SEV) in Detroit in 1993 is expected to produce a levy of about $5.7 million, while a one-mill rate applied in Wayne, Oakland, and Macomb Counties would produce a levy of over $67 million, and in the seven-county area, $82 million. The following analysis is based on the levy amount rather than the expected current year receipts from the current year levy.

Table 26
Property Tax Data for Seven Counties
(Dollars in Millions)

	1992 SEV	1-Mill Levy	Millage Rate Required to Produce $50 Million Levy
Detroit	$ 5,704	$ 5.7	8.766
Wayne	$25,803	$25.8	1.998
Oakland	28,141	28.1	
Macomb	13,199	13.2	
Subtotal Wayne, Oakland and Macomb	**$67,143**	**$67.1**	**0.745**
Washtenaw	51991	6.0	
Livingston	2,476	2.5	
Monroe	3,340	3.3	
St. Clair	2,891	2.9	
Seven Counties	**$81,841**	**$81.8**	**0.611**

Source: State Tax Commission; CRC Calculations.

In order to produce a tax levy of about $50 million, a property tax rate of nearly 8.8 mills would be required in the City of Detroit, nearly 2 mills would be needed in Wayne County, but about three-quarters of a mill would be sufficient in the three-county region.

Tax Base Sharing One way to address fiscal disparities among local units of government is for those communities to agree to share a portion of the taxes derived from future economic growth. The working model of this strategy is embodied in Minnesota's 1971 metropolitan fiscal disparities act, which enabled the Minneapolis-St. Paul tax base sharing program.

The Minnesota tax base sharing plan was implemented to stimulate economic growth through coordinated land use policies, control rising property tax rates, and reduce tax base disparities among local governments. The Minneapolis-St. Paul program, which includes over 250 local governments in seven counties, is based on sharing the tax revenues from 40 percent of the net growth in the assessed value of commercial and industrial (C/I) property since the base year of 1971. Each local government taxes 60 percent of the growth of commercial and industrial property at that government's adopted rate; 40 percent of the growth in C/I property is taxed at the average regional tax rate. The proceeds from the average regional rate applied to 40 percent of the growth in C/I property are contributed to the tax pool, and distributed back to local governments based on the population and relative fiscal capacity of those local governments.

The State of Michigan has adopted the concept of tax base sharing in two areas. Tax increment finance authorities (TIFAs) reinvest the tax revenues from the increment in tax base of the designated areas back into those areas. Tax base sharing of 50 percent of commercial and industrial growth has also been applied to school districts, but is being challenged in court. The concept could also be extended to establish a funding base for regional services by directing sane of the tax revenues from the growth in all or part of the property tax base in the region to cultural institutions (and perhaps other public services, as well) that serve a regional population. If the base year for determining growth were the year the plan was adopted, shared revenues would be small at the beginning and it would be necessary to negotiate a plan in which state aid would be continued. If the base year for determining growth were set at some prior year, existing revenues would be taken away from local governments and opposition could be fierce but the immediate revenues available for supporting regional services would be larger. The combined SEV of all classes of property in Wayne, Oakland, and Macomb Counties has grown from $39.8 billion in 1983 to $67.1 billion in 1992. Slightly more than 1.8 mills on that $27.4 billion in growth would produce a levy of about $50 million. While total SEV has been growing at the rate of $2.7 billion annually, commercial and industrial has been growing at the rate of $1 billion annually.

Tax base sharing could be implemented in either of two ways. A portion of existing property tax revenues based on SEV growth could be assigned to support of regional cultural institutions. Or a new tax could be levied, apportioned by growth in SEV. Any new local tax imposed by a regional authority to support cultural institutions would require state authorization and local voter approval under Article 9, Section 31, of the state Constitution.

Individual Income Tax The property tax is the traditional method of funding local government activity in Michigan, but is by no means the only kind of tax that may be used by local governments. If enabling legislation were passed by the state and local voter approval obtained, an individual income tax could be imposed for the benefit of regional cultural institutions. The regional tax could be piggybacked on the state income tax. This would vastly reduce the costs of

collection; state collection costs could be withheld from the amount forwarded by the state to the authority.

An estimate of the proceeds from a regional tax piggybacked on the 4.6 percent state income tax on resident individuals can be derived from 1990-91 county data published by the Senate Fiscal Agency.

Table 27
Individual Income Tax Data for Seven Counties: 1990-91
(Dollars in Millions)

	State Individual Income Tax Collections at 4.6%*	Estimated Tax Yield from Each Additional 1% of Tax	Individual Income Tax Rate Required to Produce $50 million
Wayne	$827.5	$179.9	.278
Oakland	845.2	183.7	
Macomb	426.4	92.7	
Subtotal-Wayne, Oakland and Macomb	**$2,099.1**	**$456.3**	**.110**
Washtenaw	173.0	37.6	
Livingston	62.6	13.6	
Monroe	57.3	12.5	
St. Clair	65.8	14.3	
Grand Total	**$2,457.8**	**$534.3**	**.094**

*Collections before property tax credits.

Source: Senate Fiscal Agency; CRC Calculations.

A one-tenth percent personal income tax in the three-county region would generate about $45.6 million. If all seven counties were to comprise an income tax district, collections in Wayne, Oakland, and Macomb Counties would produce 85 percent of all collections, and collections in all four of the smaller counties would be 15 percent.

This income tax would be in addition to existing state and local income taxes.

Sales Tax In 31 other states, there are local sales taxes. As previously noted, in 1988 the six-county Denver metropolitan area adopted a one-tenth of a percent sales tax to fund a scientific and cultural facilities district. This year, voters in Fresno, California, approved a one-tenth of one percent increase in the sales tax to raise $5 million annually, to be funneled through the new Fresno Metropolitan Projects Authority for the city's four major cultural institutions and for other arts projects in the metropolitan area.

Article IX, Section 8, of the 1963 Michigan Constitution states: "The Legislature shall not impose a sales tax on retailers at a rate of more than 4% of their gross taxable sales of tangible personal property." The state now imposes a four percent sales tax on goods other than food and prescription drugs. There is an interpretation that holds that the constitution does not specifically prohibit local units from imposing a sales tax. However, the state sales tax is not a very tempting

target for a piggybacked tax dedicated to cultural institutions, because the state Constitution dedicates 60 percent of all sales tax collections to the school aid fund, 15 percent to local units of government, and a portion of the tax from transportation-related sales to public transportation - Even if courts found that local authorities are not prohibited from imposing a sales tax, only a relatively small proportion of the revenues generated would be available for the new purpose under current restrictions. Both constitutional and statutory changes would be required to allow use of a local sales tax for regional cultural institutions. (Please refer to Council Comments 1006 and Report 305, **Issues Relative to the Constitutionality of Local Sales Taxation in Michigan,** published in 1992.)

It is possible to determine the rate of sales tax that would be required to produce a given amount of revenue, using 1990-91 estimates published by the Senate Fiscal Agency which were based on a survey of retail sales (minus food and prescription drug purchases) in 1990.

Table 28
Sales Tax Data for Seven Counties: 1990-91
(Dollars in Millions)

	Estimated 4 Percent Sales Tax Collections	Yield from 1 Percent Sales Tax	Tax Rate Required to Produce $50 Million	Tax Rate for $50 M if 75% Is Dedicated to Other Uses
Wayne	$506.9	$126.7	.395%	1.580%
Oakland	459.1	114.8		
Macomb	262.4	65.6		
Subtotal	**$1,228.4**	**$307.1**	**.163**	**.652**
Washtenaw	97.3	24.3		
Livingston	21.9	5.5		
Monroe	22.7	5.7		
St. Clair	29.9	7.5		
Grand Total	**$1,400.2**	**$350.1**	**.143**	**.572**

Source: Senate Fiscal Agency; CRC Calculations.

If the state Constitution and statutes were changed to allow a regional authority to impose a tax on gross sales of tangible personal property other than food and prescription drugs and to use all of the revenues a tri-county sales tax of less than .2 percent would be sufficient to generate $50 million.

Single Business Tax The single business tax (SBT) is a value added tax imposed basically on business income plus compensation paid, interest paid, and depreciation, with major deductions for new capital investment and labor intensity. The information available for estimating the single business tax rate required to produce a given level of revenue by geographic region is not as accurate as the information for other taxes. The Senate Fiscal Agency uses 1989 payroll by county data to estimate the source of the SBT collections in fiscal 1990-91.

Table 29
Single Business Tax Data for Seven Counties: 1990-91
(Dollars in Millions)

	Estimated SBT Collections	Yield from 1 Percent SBT	SBT Rate Required to Produce $50 Million
Wayne	$390.0	$166.0	.301%
Oakland	301.5	128.3	
Macomb	145.5	61.9	
Subtotal-Wayne, Oakland and Macomb	**$837.0**	**$356.2**	**.140**
Washtenaw	65.8	28.0	
Livingston	10.5	4.5	
Monroe	14.1	6.0	
St. Clair	13.5	5.7	
Grand Total	**$940.9**	**$400.4**	**.125**

Source: Senate Fiscal Agency; CRC Calculations.

The basic rate of the SBT is 2.35 percent. The preceding table estimates the county revenues generated from a one percent SBT, using the basic rate as a factor. A regional SBT could be piggybacked on the state tax.

Dedicated Lottery The great attraction of a lottery is that participation is voluntary; the great danger is that participation may be insufficient to generate revenue targets. In 1990-91, Wayne County accounted for over 38 percent of all state lottery profits, while Oakland and Macomb Counties each accounted for about ten percent. Lottery profits or net revenues were 40.1 percent of gross ticket sales.

Table 30
Lottery Data for Seven Counties: 1990-91

	Estimated Lottery Profit in Millions	Average Per Capita Gross Ticket Sales	Average Per Capita Lottery Profit
Wayne	$182.5	$215.46	$86.40
Oakland	49.7	114.34	45.85
Macomb	46.3	161.07	64.59
Subtotal-Wayne, Oakland and Macomb	**$278.5**		
Washtenaw	9.4	82.97	33.27
Livingston	3.3	71.82	28.80
Monroe	6.1	113.17	45.38
St. Clair	6.3	107.43	43.08
Grand Total	**$303.6**		

Source: Senate Fiscal Agency; CRC Calculations.

At present, all lottery profits are dedicated to the state school aid fund. Because lottery sales in Wayne, Oakland, and Macomb Counties were 59 percent of all sales statewide, a competing lottery would undoubtedly have a direct impact on the amount available for the state school aid fund. If the money allocated by individuals to purchase of lottery tickets is limited in total, sale of special lottery tickets would decrease the amount spent on regular lottery tickets which is dedicated to the school aid fund. This would place cultural institutions in direct competition with public education.

Entertainment Tax State constitutional restrictions on the sales tax (four percent rate and earmarking) apply only to the sales tax on gross taxable sales of tangible personal property. The Michigan sales tax generally does not apply to services. A use tax on entertainment services would not be subject to the state constitutional restrictions. An entertainment tax is arguably related to cultural purposes, and could be applied to amusement and recreation businesses including cable television companies, videotape rental stores, movies, theaters, rock and other concerts, sporting events, ski hills, bowling centers, golf courses, health clubs, tennis and racquetball clubs, and amusement parks. A gross receipts tax could be applied to all of the affected business revenues, but because some entertainment businesses derive revenues from the sale of meals, gifts, and clothing that are already subject to the sales tax, a gross receipts tax might have problems associated with the constitutional and statutory limits on the sales tax. A tax only on the service portion of these businesses would avoid problems associated with the constitutional and statutory limits on the sales tax. Application of an entertainment tax only to amusement and recreation services would have to be imposed at a higher rate than a gross receipts tax on entertainment businesses to obtain a specific amount of revenues.

In Table 31, 1992 gross receipts and service receipts from entertainment businesses were estimated using 1987 gross receipts data for entertainment businesses published by the Bureau of the Census and 1986-87 and 1991-92 state sales and use tax receipts data from the State of Michigan.

Table 31
Estimated Amusement and Recreation Services Receipts for Seven Counties: 1992
(Dollars in Millions)

	Estimated Gross Receipts	Tax Rate Required to Produce $50 Million	Estimated Revenues from Service Activity	Tax Rate Required to Produce $50 Million
Wayne	$572	8.7%	$432	11.6%
Oakland	470		355	
Macomb	118		89	
Subtotal	**$1,160**	**4.3%**	**$876**	**5.7%**
Washtenaw	39		30	
Livingston	19		14	
Monroe	14		11	
St. Clair	16		12	
Grand Total	**$1,248**	**4.0%**	**$942**	**5.3%**

Source: Bureau of the Census, 1987 Census of Service Industries; Michigan Department of Treasury; CRC Calculations.

Expenditures for entertainment services represent discretionary spending, theater proportion of which is presumably made by the more affluent. These more affluent individuals may be more willing (and are by definition more able) to be taxed to support the cultural amenities of the region. Since expenditures for entertainment are discretionary, receipts from an entertainment tax could be expected to be relatively volatile, increasing rapidly in good economic times and contracting sharply in economic downturns.

According to data collected by the Federation of Tax Administrators and reported in Sales Taxation of Services: Who Taxes What?, 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. There are other services not currently subject to the Michigan sales tax that could be made subject to a regional tax.

Miscellaneous Taxes Taxes on alcohol and tobacco are also based on discretionary purchases and theoretically discourage unhealthy consumption. Although these taxes can be avoided, in actuality they tend to be regressive, falling more heavily on those who have lower incomes. Alcohol and tobacco could reasonably be considered entertainment and thereby included in the base of the proposed entertainment tax. Alcohol and tobacco are already heavily taxed by both the state and federal governments.

Hotel and motel taxes are already high in the Detroit area. In addition to the state use tax, revenues from hotel motel taxes fund the convention bureau and Cobo Hall expansion. Taxes on hotels and motels are perceived to be a way to obtain tax revenues from non-residents.

The City of Detroit imposes a five percent utility users' excise tax, which is now available only to cities of over one million population. This tax is added to utility bills, collected by utility companies, and remitted to the city monthly. A regional utility tax would also be easy to collect and would spread the burden to both individuals and businesses, although utility taxes tend to be regressive. The total maximum tax rate could be set at five percent, with current rates protected, so Detroit utility users would be exempt from an increase. Exemption of Detroit residents would offset Detroit's investment in cultural capital facilities. A utility users' excise tax of less than two percent on utility bills in out-Wayne, Oakland, and Macomb Counties could produce an estimated $50 million. This strategy would also decrease the disparity between the total tax effort of Detroit residents and of others in the region. It could be argued that Detroit residents should not have to contribute to operations of city cultural institutions (presumably the main beneficiaries of a regional tax) because they own the buildings and collections. It could also be argued that Detroit residents should pay the same as others in the region to keep their facilities open.

Voter Approval

It may be that voter approval of a regional cultural tax would require the public at large to feel a sense of crisis, that no condition short of imminent closure of regional cultural institutions would be sufficient to obtain voter support. Whether reductions in state funding have been sufficient to create the requisite sense of crisis is arguable. If efforts to develop regional support are successful, the state might seize that opportunity to eliminate the remaining state support, claiming that state support has been rendered unnecessary. Total elimination of state funding prior to development of regional or other funding would probably create not only a sense of crisis, but indeed a real crisis from which some institutions might not recover, even if regional support were subsequently obtained. Regardless of whether a regional funding source is developed, these facili-

ties continue to be a major state resource and continued state participation in funding these and other cultural facilities in the state would be appropriate.

Voters may reject a dedicated tax if they believe that tax subsidies will be used to support institutions that have little or no value to the taxpayer, or if they fear the lack of accountability and responsibility that arises when one unit of government raises the money and another unit of government spends it. If voters fail to approve new tax support, elected officials in Detroit, in the southeast Michigan region, and in Lansing will be forced to Judge whether major cultural institutions can (or should) survive without tax support, and if they cannot, whether funding of cultural institutions is a sufficiently high priority to justify allocation of existing tax dollars.

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 user fees and voluntary contributions. The prospect of a future without public funding may be intimidating to the leaders of some cultural institution and liberating to others, but it is the structure employed by many cultural institutions, including many in southeast Michigan. In the absence of tax subsidy, only those institutions that generate sufficient voluntary support will survive.

Allocating Resources

Voters could be offered the opportunity to dedicate portions of a tax source to specific individual cultural institutions, as occurred in St. Louis. This would involve separate votes on taxes for the DIA, the zoo, the symphony, etc. This strategy could lead to some institutions receiving support and other institutions being rejected by the voters. It would probably exclude smaller arts organizations from benefits, but would truly reflect the value the public placed on the individual institutions.

If a taxing district for the support of unspecified cultural institutions could be established, 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. This would shift the responsibility for determining the value of the product from the public to the arts council, and would allow support of smaller institutions.