

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

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

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## **EXECUTIVE SUMMARY**

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

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

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

Part of the difficulty in establishing productive communications on the issue of regional funding for cultural institutions has been the result of failure to convincingly establish the societal value of those institutions, their economic impact, the extent of their usage by citizens from within and outside the region, and the absence of a generally perceived crisis in funding that would threaten the region with the loss of these institutions.

In addition, the debate has been confused by a tendency of Detroit city officials to regard the Detroit Institute of Arts, zoo, Belle Isle, historical museums, and main library as equity--the money value of the property--rather than as a public trust. The idea that cultural institutions represent assets for which the city must be reimbursed at fair market value misses the point. The "city" did not pay for these assets. Many of the assets were donated and the taxpayers of the city and of the state paid for those not donated. The city government is now the steward of cultural institutions that are held in public trust for the public. These institutions are not "capital" in the sense that they produce income; rather, they have required massive tax subsidies to remain open and available to the public. A transfer of stewardship may be in the best interests of the institutions, the public, and the city itself; such a transfer should not be considered in terms of a sale of capital assets from one owner to another. A transfer of some of the stewardship responsibilities may include responsibility for funding and operations. Preserving the public trust is what is important.

Citizens of southeast Michigan should accept responsibility for those cultural institutions that help define the region, learn from the experiences of other metropolitan regions, and decide whether to adopt a dedicated regional tax to support regional cultural institutions. One logical source of revenue for this purpose is an entertainment service tax. A five-to-six percent tax on currently untaxed entertainment services in Wayne, Oakland, and Macomb Counties would produce about \$50 million, slightly more than the highest level of state funding for large and small cultural institutions in the region. This would insure the continued support of major institutions and could provide support for smaller cultural organizations as well.

It is clear that a large number of issues would have to be resolved, and that numerous permutations of ownership, authority, and responsibility are possible. The broad framework of the city retaining ownership of physical assets, the nonprofit friends or founders society providing services, and the regional taxing authority providing tax support may provide the best approach to resolving governance issues. This structure would allow flexibility in developing arrangements among the city, regional authority, and nonprofit organizations, and could apply to major institutions and to smaller cultural organizations.

## SUMMARY AND CONCLUSIONS

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

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

**City of Detroit and State of Michigan Support for the Arts** Prior to fiscal 1976-77, cultural institutions that are City of Detroit departments were supported primarily by city general funds. By the mid-1970s, city officials believed that the general fund was no longer able to support nonessential services. City appropriations to cultural departments were substantially reduced, forcing temporary closings and elimination of some services.

The state responded to this fiscal crisis by instituting state equity grants for the support of cultural institutions and other city services in fiscal 1976-77. State equity support for City of Detroit-owned cultural institutions grew from \$9.7 million in the first year of the program to a high of \$32.4 million in 1988-89, and declined to \$20.3 million by 1992-93. State equity funding allowed the city to substitute state support of targeted services while retaining complete ownership and control, and provided substantial increases in cultural agency support over time. Since the beginning of the equity grant program, the state has provided the City of Detroit with more than \$400 million to support major cultural and recreational institutions. State equity funding was extended to the Detroit Symphony Orchestra to alleviate a financial crisis faced by that private, nonprofit organization in fiscal 1990-91.

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

**Lessons from Other Cities** There are several characteristics of solutions to similar problems developed in other cities that are meaningful and potentially applicable in southeast Michigan. Among those that deserve special attention are regional tax districts for the support of cultural institutions; consolidated fund raising; city retention of ownership of the physical assets of cultural institutions combined with private operation; grandfathering the members of existing governing boards of cultural institutions into the new policymaking bodies; and dedication of part of cultural funding resources for the support of medium sized and smaller cultural institutions.

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

raising efforts could be consolidated by merging the fund raising staffs from member organizations; conducting an annual campaign; soliciting donations from individuals, foundations, and corporations (including payroll deductions); assisting member organizations; fostering communications among member organizations; and relieving donors of the responsibility of selecting among competing organizations.

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

One of the various possible regional means of guaranteeing tax support for regional cultural treasures is through creation of a regional authority and adoption by the voters of a dedicated regional tax. A new regional authority could have only funding, or both funding and operating responsibilities. As opposed to a multipurpose authority, a new, single purpose, regional authority could be better focused, have a more streamlined administrative structure, be better able to fix responsibility and to match boundaries to the area served, and be less threatening to existing local governments than a multipurpose authority.

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

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

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

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

Voters could be offered the opportunity to dedicate portions of the proposed tax to specific individual cultural institutions by requiring separate votes on taxes for the DIA, the zoo, the sym-

phony, etc. Or funds could be apportioned among a designated group of institutions or among as many institutions as possible using an allocation formula based on the relative size of the institutions' budgets in the year prior to adoption of the tax, or on some other formula, perhaps one based on relative attendance, or the amount of outside revenues raised, or the relative percentage of the state equity grant institutions received in a specific year. Another approach would be to establish committees or to use existing arts councils to distribute funds based on grant requests or applications from organizations or individuals that met specified standards.

**Governance, Responsibility, and Accountability** Much of the controversy about regionalization and privatization will focus on the issue of ownership of regional cultural facilities. Ownership of regional cultural institutions need not change. The broad framework of the city retaining ownership of physical assets, the nonprofit friends or founders society providing services, and the regional taxing authority providing tax support may provide the best approach to resolving governance issues for those institutions that are now part of city government. This structure would allow flexibility in developing arrangements among the city, regional authority, and nonprofit organizations, and could apply to major institutions and to smaller cultural organizations.

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

## **CHAPTER I THE PROBLEM**

This report addresses the question of how adequate financial support for the, major arts and cultural facilities in southeast Michigan can be assured. Historically, public support for some cultural institutions was provided by the City of Detroit. When the financial condition of the City of Detroit precluded the city from maintaining an adequate level of support, the State of Michigan assumed major responsibility for funding these institutions. Now, however, that state support is threatened. If the city cannot fund regional cultural institutions and the state will not fund them, what are the alternatives?

This issue arises because of past and proposed reductions in the Detroit equity package, which has been the main conduit for state grants to City of Detroit owned and administered arts and cultural facilities; the financial problems of Detroit city government; the declining ability of Detroit officials to influence state resource allocation decisions; and the continuing financial problems experienced by private arts and cultural institutions. Other issues, such as the proper roles of various levels of government and the effect on the arts of public funding, are crucial in the development of strategies to guarantee the future viability of major arts and cultural institutions. This analysis will explore where along the public support--private support continuum the major cultural institutions in southeast Michigan might be positioned, and if public support is appropriate, identify potential sources of that support, the existing cultural institutions that might receive it, and the basis on which it could be distributed.

### **History and Description of Selected Major Institutions**

There may be various definitions of “cultural institution,” some of which are more exclusionary than others. This paper will use a broad definition that encompasses both art and recreation. Primary focus is placed on City of Detroit art and recreation facilities that serve a regional audience: art and historical museums, zoos, the main library, Belle Isle park. Secondary focus is on private, nonprofit cultural institutions such as the Detroit Symphony and Orchestra Hall, Cranbrook, the Edison Institute, and smaller cultural organizations; participation of those organizations could be built into any regional or other funding strategy that might be developed.

The inclusion of cultural facilities and services in the structure of city government occurred as a result of donations, intentional development, and state legislative action. At the time most cultural activities were assumed by the city government (library in 1903, arts in 1918, zoo in 1924, historical in 1945), the economic prospects of Detroit were considerably different than they are now.

The current Detroit City Charter, which became effective on July 1, 1974 makes the mayor the head of the executive branch of city government, and provides for mayoral appointment of the directors of all executive branch departments except as otherwise provided by law or the Charter. Charter sections do provide otherwise for the Arts, Historical, and Zoological Departments. For those departments, the city charter contains nearly identical language requiring that the mayor appoint commissions. Those commissions appoint with the approval of the mayor the department directors and deputy directors, theoretically shielding those department heads from political pressure.

As executive branch departments, Arts, Historical, Zoological, and Recreation are subject to normal city rules and procedures. Employees of these cultural departments are city employees, who belong to the city's pension system. They are bound by labor contracts negotiated by the city Labor Relations Division and by Personnel Department rules on hiring, assigning, supervising, disciplining, and firing employees. Budget, Finance (including Purchasing, Payroll, and Voucher Audit), Data Processing, and all other city staff agencies and rules apply to all city cultural agencies except the Library Department. The library is a unique entity. The library board is appointed by the Detroit Board of Education rather than the mayor, and library officials have more administrative latitude than other city department officials.

The Arts Department, which is responsible for operating the Detroit Institute of Arts, the Historical Department, which is responsible for operating the city's three historical museum facilities, the Zoological Department, which is responsible for two zoos and an aquarium, and the Detroit Public Library, which is responsible both for Main Library and the branch library system, differ from other city departments in the assistance they receive from "founders" and "friends" societies. These societies, which collect membership fees from the public (allowing free admission and discounts on some purchases) and which may have their own employees, provide resources which are in addition to those provided by or through the City of Detroit and which do not appear in the city budget. These support organizations may provide additional staff, salary supplements, capital improvements, purchase of exhibit items, or program enhancements. The library also has earmarked millage composed of two voter approved mills and .64 mill passed through from the Detroit Public School levy.

While attendance records for these cultural institutions are not consistently maintained and there is limited information available as to the residence of users, the DIA, zoo, and main library serve a regional, state, national, and international clientele as well as Detroit residents.

**Revenue Comparison** Selected major institutions' revenues reported in Table I include contributions from support organizations such as the Founders Society of the DIA. It is clear that none of the seven institutions included in Table 1 operate exclusively on revenues earned from operations, but the proportion of costs covered by revenues from operations vary from seven percent for Belle Isle to 70 percent at the Edison Institute and Greenfield Village. These facilities rely on interest from large endowment funds, substantial private sector gifts and grants, tax supports or some combination of unearned revenues to provide the difference between earned income and operating needs.

**Table 1**  
**Operating Revenue Sources of Selected Major Cultural Facilities: 1991-92**  
**(in Millions)**

	<b>DIA</b>	<b>Detroit Zoo</b>	<b>Main Library</b>	<b>Belle Isle#</b>	<b>DSO</b>	<b>Edison Institute*</b>	<b>Cran- brook</b>
Direct Taxes	-	-	\$3.1	-	-	-	-
State Equity Grant	\$9.6	\$1.5	6.0	\$2.8	\$1.8	\$0.1	-
City of Detroit Subsidy	0.5	2.9	-	1.2	0.1	-	-
Other Government Grants and Transfers	-	-	1.1	0.2	0.2	-	\$0.5
Revenue from Operations	3.4	3.4	1.0	0.2	5.3	16.5	17.5
Earnings on Investments	1.0	-	-	-	0.9	4.5	6.2
Gifts and Private Grants	4.7	0.3	-	-	7.8	2.6	1.9
Other Revenue	-	-	-	-	0.1	-	2.1
<b>Total</b>	<b>\$19.2</b>	<b>\$8.1</b>	<b>\$11.2</b>	<b>\$4.4</b>	<b>\$16.2</b>	<b>\$23.7</b>	<b>\$28.0</b>

\* Calendar 1991 data.

# Estimated from budget.

Note: Operating revenues exclude sale of bonds, gifts of works of art, and contributions to endowment funds.

Sources: Annual Financial Reports; Senate Fiscal Agency, 1992 Statistical Report; and other information.

**The Detroit Institute of Arts** The institution that became the Detroit Institute of Arts (DIA) was established in 1885 by the Detroit Museum of Art Corporation, which donated its building on Jefferson Avenue and its collections to the city in 1918. The original Detroit Institute of Arts building on Woodward Avenue was opened in 1927; wings were added in 1966 and 1971.

The DIA is now a world class art museum of 596,000 square feet, 145,000 of it in exhibition space. The Founders Society of the Detroit Institute of Arts reported 42,500 individual or family memberships, over 1,000 volunteers, and endowment fund market value of about \$44 million in 1991. Attendance in that year was 761,000.

State funding for the DIA increased from \$3.5 million in fiscal 1976-77 to \$16 million in 1983-84. The 1986-87 state equity grant to the DIA included an additional \$200,000 that was designated for outstate exhibits and services; the 1987-88 through 1990-91 annual grants each included an additional \$400,000 for that purpose. The 1992-93 city operating budget for the DIA is \$11.7 million; state equity grant revenue is included in the city budget at \$9.6 million. The total DIA budget including Founders Society contributions will be about \$30 million according to the state Senate Fiscal Agency, but that figure includes contributions of works of art and contributions to the endowment fund.

Table 1 compares 1991-92 operating revenues of seven regional cultural institutions. DIA revenues reported in Table 1 reflect both the City of Detroit and the Founders Society contributions to operations. The \$9.6 million in 1991-92 state equity funding for the DIA was a reduction of \$6.8 million or 41 percent from the \$16.4 million received in 1988-89.

**The Detroit Zoo** The main Detroit zoo is located in Royal Oak, Michigan, on a 100-acre parcel that was deeded to the City of Detroit in 1924 on condition that the city would spend at least one-tenth of a mill of property tax each year for the next five years on the improvement, maintenance, and upkeep of the zoo. In 1928, 20 acres adjoining the zoo on the south side were given to the city. In the 1920s, attempts to establish a tri-county zoo under the auspices of Wayne, Oakland, and Macomb Counties failed when the Wayne County Board of Supervisors rejected the idea. The department also includes the modern, 13-acre Belle Isle Zoo and the antiquated Belle Isle aquarium, the first public aquarium built in the U.S.

The zoo first imposed an admission fee in 1972. Admissions are expected to generate \$3.4 million in the current year budget, 42 percent of the \$8.1 million cost of operations. Other revenues include \$1.5 million from the state equity grant (down from \$2.5 million in 1988-89) and \$2.2 million in city general fund support. The city budget for 1992-93 includes capital appropriations funded by the sale of \$1.7 million of general obligation bonds. The zoo receives both operating and capital assistance from the nonprofit friends society.

Table 1 data for the 1991-92 fiscal year reflect similar revenues: \$1.5 million from the state, \$2 million from the city, \$4 million in revenues from operations, and \$0.5 million in gifts and private grants.

**Main Library** The Detroit Public Library was created by specific state legislation in 1869, and is a public corporation, its commission members appointed by the Detroit Board of Education. The Library Department includes both branch operations and the Main Library, a federal depository library with a collection of about 1.6 million books, periodicals, and other documents. The Main Library is considered a regional cultural institution. The Library Department controls its own hir-

ing and labor relations, purchasing, and other internal matters, but state law places budgeting, accounting, and payments from the library fund under the control of the City of Detroit. Library employees are members of the Library division of the city's general pension system.

In August of 1984, city voters approved a one-mill, five-year property tax for the support of the library; that tax was renewed in 1988 for another five years. In November 1990, city voters approved a second mill for five years for library support. This library millage is in addition to the city's 20-mill operating levy, and counts as part of the city tax levy for purposes of state revenue sharing. The library also receives the revenues generated by .64 mill of the school property tax which is passed through by the Detroit Board of Education in compliance with state statute. Of the \$12.8 million in property tax revenues the library expects to receive this year, \$3.1 million is budgeted for Main Library and \$9.8 million is allocated to branch operations. The 1992-93 budget for the main library is \$10.3 million; all equity grant revenues are allocated to the main library. The current year state equity funding of \$6 million is \$1.2 million less than the \$7.2 million received annually from fiscal 1984 to fiscal 1987. The library's friends organization provides volunteers and funding assistance for capital projects.

The library is the only major cultural institution in the region that has dedicated tax support; the library generates relatively little revenue from operations.

**Detroit Historical Museums** The Detroit Historical Society, founded in 1921, organized the first museum in 1928. The Historical Society had raised \$400,000 for a new building by 1945, when a charter amendment to establish a Detroit Historical Commission was approved. The society gave the \$400,000 and its collections to the city in 1946.

The Detroit Historical Department now encompasses four separate museum sites: the main museum; Dossin Great Lakes Museum on Belle Isle; Historic Fort Wayne, now closed; and Moross House, which is leased to another organization. The 1992-93 department budget of \$3.4 million includes a \$0.7 million appropriation for the operation of the Museum of African American History; in August 1992, Detroit voters authorized issuance of \$20 million of general obligation bonds to build a new Museum of African American History. State equity funding has been reduced from \$3.5 million annually in fiscal years 1986 through 1989 to \$2.0 million in 1992-93. Net tax cost to the city in 1992-93 is expected to be \$1.3 million.

**Belle Isle** The Recreation Department operates Belle Isle, a major island park containing a Zoological Department zoo and aquarium; Dossin Great Lakes Museum; two private boat clubs; public golf course; conservatory; police ministration, harbormaster, and other police facilities; beach; fishing piers; nature center; picnic areas; nature areas; refectories; and other facilities. Belle Isle is comparable to regional parks operated by the Huron Clinton Metropolitan Authority, but its \$3.8 million cost is offset by \$1.6 million in state equity funding, \$1.6 million in general city support, and \$0.6 million in other revenues. Annual state equity funding for Belle Isle has declined by 43 percent from \$2.8 million.

Table 1 reflects estimated revenues for Belle Isle. Although the city budget contains an appropriation for Belle Isle, city annual financial reports do not provide detail on this part of the Recreation Department budget.

**Detroit Symphony Orchestra** The private Detroit Symphony Orchestra (DSO) was founded in 1914. The DSO had occupied Orchestra Hall from 1919 until 1941, when it moved to the Ma-

sonic Temple. A few years later, the symphony moved to the Music Hall, and in 1955, to Ford Auditorium, which had been donated to the city. The boards of the symphony and Save Orchestra Hall, Inc. cooperated to form Detroit Symphony Orchestra Hall, Inc. in 1989, and in that year the DSO returned to the restored Orchestra Hall. Save Orchestra Hall, Inc. owns Orchestra Hall and Detroit Symphony Orchestra Hall, Inc. operates the facility. The DSO, which has both classical and modern components in its repertoire, is a world class symphony.

Unlike the preceding institutions, the DSO is not a part of city government. Because the orchestra owed a substantial debt to the city for unpaid rent on Ford Auditorium, an agreement was reached whereby the orchestra would provide six public concerts over two years in lieu of cash payment (the “City of Detroit subsidy” reported in Table 1 represents partial write-down of the debt).

The DSO has survived periodic financial crises. State funding was intended to help the orchestra reduce its deficit. The annual deficit used to be \$3 million to \$4 million each year, and has been reduced to about \$2 million a year; at the end of 1991, the accumulated deficit had been reduced to \$6.8 million. In recent years, state aid was made contingent on affirmative action efforts and state outreach programs. Since that state emphasis, the orchestra has initiated several affirmative action programs, including an Afro-American composers forum, minority fellowship program, and gospel celebration concert. Recent reductions in state funding have resulted in the reduced presence of the orchestra outstate. For example, the DSO used to present six symphony performances in the upper peninsula, but now sends the brass quartet instead.

**Table 2**  
**State Funding for the Detroit Symphony**  
**(in Millions)**

1980-81	\$.8		1986-87	\$2.6
1981-82	.8		1987-88	2.7
1982-83	8		1988-89	2.6
1983-84	1.6		1989-90	2.6
1984-85	1.9		1990-91	2.5
1985-86	2.4		1991-92	1.8

Source: Senate Fiscal Agency

The DSO’s endowment fund was \$16.7 million in 1990, and grew to \$19.2 million in 1991. Table 1 reports operating revenues for the symphony for 1991-92. Of the total \$16.2 million in operating revenues, the \$1.8 million state equity grant, \$0.1 million city contribution, and \$1.8 million of corporate and private sector gifts were used for deficit reduction. The remaining \$12.5 million supported symphony activities. 42 percent of these activities were funded by revenues from operations.

**Edison Institute** The private Edison Institute, which operates Henry Ford Museum and Greenfield Village in Dearborn, serves 1.1 million visitors annually, the largest audience of the cultural institutions in southeast Michigan. This historical museum was founded by Henry Ford in 1929, and members of the Ford family still hold some seats on the institute’s board of directors. In the early 1980s, the institute lost annual operating subsidies from the Ford Motor Company, but the company made a gift of company stock to the institute to compensate for that loss; the endow-

ment fund balance at December 31, 1991, was \$64.9 million, with another \$10.6 million in the plant fund. Edison Institute received over \$2.5 million in state equity and historic preservation grants in the five-year period 1987 through 1991. Table 1 indicates that in 1992, out of a total operating budget of \$23.7 million, only \$0.1 million came from the state equity grant.

**Cranbrook** The Cranbrook Educational Community, which comprises Cranbrook Schools, Academy of Art and Museum, and Institute of Science on a 315-acre campus in Bloomfield Hills, is one of the major private regional cultural institutions that are not dependent on tax financing. Cranbrook depends on tuition and fees, investment income and gains, and donations by individuals, corporations, and foundations to support its programs and to maintain its structures, works of art, and grounds. The institute has received grants from various public agencies including the U.S. Department of Education and the Pontiac Schools for specific programs, but has not received state equity grants. Cranbrook reported the value of its endowment and similar funds as \$120.5 million at June 30, 1992.

## **CHAPTER II**

### **CITY OF DETROIT AND STATE OF MICHIGAN SUPPORT FOR THE ARTS**

#### **History of Tax Support for City Cultural Institutions**

Cultural institutions that are City of Detroit departments were supported primarily by city general funds through fiscal 1975-76. In that year, however, Detroit incurred a general fund deficit of \$36.9 million and temporarily closed the Detroit Institute of Arts, historical museums, and other facilities. In response to the city's financial difficulties, the State of Michigan appropriated the first equity grant to Detroit in 1976-77. The rationale for the "equity grant" was to reimburse Detroit for services provided to individuals who were not Detroit residents and to facilitate the merger of the Detroit Department of Transportation with the Southeast Michigan Transportation Authority.

The first grant contained a total of \$9.7 million for the main library, DIA, and historical museums and \$17.9 million for non-cultural activities including Department of Transportation pensions, Detroit General Hospital, and public health. Allocations for the Detroit Zoological Department were not included in the equity package until 1984-85. The equity grant program was originally designed primarily to provide financial assistance to the City of Detroit and incidentally to support cultural institutions. Over the years, the grant has included funding for a changing array of non-cultural activities performed by the city, including police special events and the police crime lab, but 78 percent of the grant that is now received by city government is used to support arts, cultural, and recreational facilities and activities. If an alternative funding source were developed for regional cultural institutions, part of the state grant that now supports city-owned cultural institutions could be directed to other city activities in recognition of Detroit's importance to the economic well being of the region and of the state.

Since the beginning of the equity grant program, the state has provided the City of Detroit with more than \$400 million to support major cultural and recreational institutions. Reductions in state equity grants to Detroit were part of the state's response to its own financial problems starting in fiscal 1990-1991, and were also consistent with a general philosophy in favor of smaller state government. Annual state equity grants to Detroit government cultural institutions have declined by \$11.5 million, from a high of \$32.3 million in 1989-90 to \$20.3 million in 1992-93. Because City of Detroit cultural institutions had become dependent on state support, loss of portions of the state equity grant resulted in reductions in programs, hours, and facilities open to the public.

**Table 3**  
**History of Detroit Equity Grants to City-Owned Cultural Facilities**  
**(in Millions)**

<b>Fiscal Year</b>	<b>DIA</b>	<b>Main Library</b>	<b>Historical Museums</b>	<b>Zoo</b>	<b>Belle Isle*</b>	<b>Total</b>
1977	\$ 3.5	\$ 5.5	\$ 0.7	-	-	\$ 9.7
1978	4.4	6.5	0.7	-	-	11.6
1979	7.1	6.5	0.7	-	-	14.3
1980	10.0	7.5	1.8	-	-	19.3
1981	10.5	7.0	1.8	-	-	19.3
1982	12.4	7.9	2.1	-	\$ 1.8	24.2
1983	14.7	6.9	1.7	-	-	23.3
1984	16.1	7.2	2.4	\$ 0.2	3.3	29.2
1985	16.0	7.2	2.5	1.5	2.8	30.0
1986	16.0	7.2	3.5	2.5	2.8	32.0
1987	16.2	7.2	3.5	2.5	2.8	32.2
1988	16.3	7.1	3.5	2.5	2.8	32.2
1989	16.5	7.1	3.5	2.5	2.8	32.4
1990	16.0	7.0	3.4	2.4	2.7	31.5
1991	13.6	7.1	2.9	2.1	2.3	28.0
1992	9.6	6.0	2.1	1.5	1.6	20.8
1993	9.6	5.8	2.0	1.4	1.5	20.3
<b>Total</b>	<b>\$208.5</b>	<b>\$116.7</b>	<b>\$38.8</b>	<b>\$19.1</b>	<b>\$27.2</b>	<b>\$410.3</b>

\*The Belle Isle allocation was part of the “regional cultural grant” that was also used to support Cobo Hall and the trolleys.

Source: City of Detroit; Senate Fiscal Agency

Changes in the level of city and state funding for cultural institutions and activities and the significant growth in the equity grant to the Detroit Institute of Arts, which created a heavy dependence on state funding, have focused attention on the critical issues of who ought to pay for support of regional cultural institutions, and the level at which these institutions should be funded.

### **The City of Detroit**

The City of Detroit established cultural and other services during a period when much of the wealth of the state was concentrated within the city’s boundaries. Detroit grew explosively in the early decades of this century, and in 1950 the city population was over 1.8 million, 29 percent of the total state population. The population of Detroit declined about ten percent in the 1950s, another ten percent in the 1960s, 21 percent in the 1970s, and about 15 percent in the 1980s. In 1990, the city population was 1,027,974, only 11 percent of the total state population. Many of those who left the city were middle and upper income residents.

Many of Detroit’s remaining residents are poor; 32 percent are below the poverty level. Detroit has the lowest median household effective buying income of the nation’s 20 largest cities, and 28 percent of Detroit households have median household effective buying income under \$10,000.

Property values have remained relatively stable in nominal terms for decades, but in real terms the state equalized value of property on the ad valorem tax roll in 1992 was worth 32 percent of the value in 1970. The eroding tax base has caused the city to increase the number and rates of taxes. In 1991P Detroit city property, income, and utility users' excise taxes combined to produce a relative tax effort that was 6.8 times the average of all Michigan cities, villages, and townships. The city no longer has the economic base or the fiscal capacity to support regional cultural facilities.

In the current fiscal years the city's \$1.2 billion general fund will contribute \$5.5 million (0.45 percent of general fund appropriations) to the three cultural departments, Main Library, and Belle Isle. The total anticipated expenditures for those five activities (excluding off budget friends and founders societies' expenditures) is about \$40 million; the city's general fund net tax cost will be about 14 percent of budgeted appropriations for those functions.

**Table 4**  
**1992-93 City of Detroit Budget**

<b>Total Activity</b>	<b>Net Appropriations</b>	<b>City Tax Cost</b>	<b>Net Tax Cost as a Percent of Total Appropriations</b>
Arts	\$11,718,994	\$ 400,000	3.4%
Historical	3,418,502	1,340,202	39.2
Zoological	9,770,633	2,161,833	22.1
Library	10,861,633	0	0.0
Belle Isle (Recreation)	<u>3,809,742</u>	<u>1,596,793</u>	41.9
Total	\$39,579,504	\$5,498,828	13.9%

Source: Detroit 1992-93 Budget; CRC Calculations.

While the city provides \$5.5 million to these activities, it charges the DIA, main historical museum, and Main Library a total of \$1.7 million for external police and fire protection. These are the only city departments charged for public safety services. The payment of nearly \$1.1 million from the Arts Department to the city is \$0.7 million more than the city provides to that department. The city provides no general tax support to Main Library, but charges that institution over \$0.5 million. Of the three affected institutions, only the Historical Museum receives more from the city than the \$94,000 it is required to pay to the city. If the charges for police and fire protection are subtracted from the amount the city provides to the regional facilities listed in Table 4, the net cost of those facilities to the city's general fund is \$3.8 million.

**Effects of State Equity Funding on the City Budget** State equity funding allowed the city to substitute state support for city support of targeted services while retaining complete ownership and control, provided substantial increases in cultural agency support over time, and altered the budgetary relationships among city departments.

Charts 1 through 5 reflect changes in city operating budgets for the three departments and parts of two departments that are the focus of this report.



The charts indicate the total city operating budget for each function and divide the revenues into three categories: city general fund support (net tax cost); state equity grants; and all other revenues. Because budgets for the Recreation Department and the Library Department did not isolate Belle Isle and Main Library in the earlier years, charts 3 and 5 include only fiscal 1984-85, 1989-90, and 1992-93. The charts demonstrate that equity grants were the major factor in changing the fiscal relationship among these institutions; the fiscal relationship between these institutions and the rest of city government was also affected.

In fiscal 1969-70, the city operating budget for the Arts Department totaled \$1.3 million, nearly all financed by the city's general revenues. Five years later, the city operating budget for the Arts Department was \$2.1 million, with \$0.1 million generated by Arts Department activity. Equity funding resulted in very rapid growth in the Arts budget, which totaled \$10.4 million in fiscal 1979-80. Of that total, \$10.3 million was provided by the state equity grant, less than \$69,000 was provided by the city, and \$63,000 came from all other sources. The city subsidy was the same amount in 1984-85, but the equity grant had grown to \$16 million, and changes in the relationship between the city and the Founders society resulted in \$1.6 million in other revenues in the city operating budget, for a total of \$17.7 million. The 1989-90 operating budget reached \$19.5 million, with \$16.4 million from the equity grant, \$0.5 million from the city, and \$2.5 million from all other sources. The revenue reductions of the past few years appear clearly in Chart 1: fiscal 1992-93 budgeted operating revenues total \$11.7 million, with \$9.6 million in equity funding, \$0.4 million in city support, and \$1.7 million from all other sources.

In 1969-70, the total operating budget for the Zoological Department was larger than the Arts Department city operating budget. Of the \$2.3 million in the Zoo budget, \$1.5 million was produced as a result of Zoo operations and \$0.7 million was general city support. Five years later, the city's net tax cost had doubled to \$1.5 million, and operating revenues were budgeted at nearly \$2 million. In 1979-80, budgeted city support was almost \$2 million, while CETA and other revenues totaled \$6.4 million. In the 1984-85 budget, the state equity grant accounted for \$1.5 million in Zoo revenues, the city contributed almost \$2.1 million, and all other sources generated about \$2.6 million. The 1989-90 budget projected similar amounts from the three sources: \$2.5 million from the state equity grant; \$3 million from the city; and \$2.8 million from all other sources. The 1992-93 budget included reductions in both city and state support, and an increase in other revenues to \$4.5 million.

In 1969-70, the Historical Department budget was just over \$0.6 million nearly all funded by the city. The 1974-75 budget was twice as large, \$1.2 million, of which only \$48,000 was expected to come from sources other than general city revenues. CETA revenues of about \$0.7 million and the state equity grant of over \$1.7 million allowed the net tax cost of Historical to shrink to \$0.4 million in the 1979-80 budget. City support was budgeted at \$0.8 million in 1984-85, when the state equity grant contributed \$3.5 million to Historical Department operations. In the 1989-90 budget, the city's net tax cost was \$1.3 million and the state's support had grown to \$3.5 million. The city's contribution remained at \$1.3 million in the 1992-93 budget, but state funding fell to less than \$2.1 million.

In fiscal 1969-70, general city tax support for Arts Department operations was about double that for either the Zoological or Historical Departments: \$1.3 million for Arts, \$0.7 million for Zoological, and \$0.6 million for Historical. The largest of the three budgets was for the Zoological Department, which projected \$1.5 million of revenues from operations, compared to \$37,000 for the Arts Department and \$8,250 for the Historical department.

In fiscal 1979-80, the Arts Department operating budget had grown to \$10.4 million, with \$10.3 from the state equity grant and \$69,000 from the city. The Zoological Department operating budget of \$6.4 million was smaller than Arts, and the historical department budget had grown only to \$2.9 million.

The disparities between the budgets of the three departments had grown very large in 1989-90: the Arts Department budget totaled \$19.5 million (\$16.4 million from the state equity grant); the Zoological Department budget was \$8.1 million (\$2.5 million from the state equity grant); and the historical department budget was \$4.9 million (\$3.5 million from the state equity grant).

In Charts 1 through 5, the recent deductions in state equity funding appear most dramatic for the Arts Department, which budgeted \$9.6 million in state equity funding in 1992-93. Percentage reductions in budgeted state equity grants were the same in the Historical and Zoological Departments, however. The Zoo, which has historically generated the largest proportion of its revenues from operations, expected to increase that support to compensate for the reductions in state funding.

Although the budget for the Main Library was not separated from branch operations in fiscal 1970, 1975, and 1980, by 1985 it is clear that no general city support was allocated to Main. Detroit voters approved one mill of property tax support for the library commencing on December 1, 1984, and second mill commencing on July 1, 1991. Increasing property tax revenues have replaced declining state equity grants.

The city reallocated part of the discretionary equity grant to Belle Isle. While the total budget for the park increased slightly from \$4.3 million in 1985 to \$4.5 million in 1990, reductions in the state grant caused the budget to shrink to \$3.8 million in 1993.

As would be expected, the city has resisted reductions in state equity grants. The 1991-92 city budget reflected the amounts Detroit hoped to receive from the state equity grant program; it was believed that budgeting less would result in a self-fulfilling prophecy. After expenditure reductions in the affected departments, state equity program cuts contributed to an estimated \$4.7 million to the \$196 million 1991-92 general fund deficit. The 1992-93 city budget projected as revenues the same amount as had been received in 1991-92, but state executive cuts in the original 1992-93 equity grant appropriations again caused revenue deficits in affected city departments.

**Comparisons with Other Cities** The inclusion of Arts, Historical, and Zoological Departments as part of city government directly affects per capita expenditures for parks and recreation, as reported by the Bureau of the Census. A comparison of per capita expenditures for parks and recreation activities, which include cultural and scientific activities such as museums and art galleries, as well as park maintenance and organized recreation programs and activities indicated that in fiscal 1989-90 (the last year for which data are available) City of Detroit per capita expenditures were the second highest of the twenty largest continental U.S. cities. The comparisons in Table 5 include all of the city expenditures for the Arts, Historical, Zoological, and Recreation Departments, regardless of whether those expenditures were funded by the city, state, or other source. San Francisco, which reported higher per capita expenditures for parks and cultural facilities, also includes museums as part of the city government structure.

**Table 5**  
**Per Capita Expenditures for Parks and Recreation: 1989-90**  
**Largest Continental U.S. Cities**

City	Amount	Rank	City	Amount	Rank
San Francisco	\$164.91	1	New York	\$61.09	11
<b>Detroit</b>	<b>118.69</b>	<b>2</b>	Columbus	53.19	12
San Diego	103.29	3	Jacksonville	47.44	13
Washington	97.43	4	Philadelphia	46.60	14
Dallas	95.91	5	Los Angeles	45.24	15
Phoenix	92.31	6	Boston	41.93	16
San Jose	79.75	7	Houston	32.97	17
Memphis	76.93	8	Indianapolis	29.74	18
Baltimore	66.90	9	Milwaukee	18.58	19
San Antonio	61.52	10	Chicago	13.81	20

Source: Bureau of the Census, City Government Finances: 1989-90.

Nationally, some museums receive substantial city government support without being part of city government. For example, data from The Association of Art Museum Directors' 1992 Statistical Survey indicate that 32 of the 91 art museums that reported city government support received more from their city than the \$500,000 the DIA received from Detroit.

**Table 6**  
**City Government Support Reported by Art Museums**

Amount of City Support	Number of Museums	Amount of City Support	Number of Museums
\$ 500-- \$ 99,999	39	\$1,000,000-- \$1,999,999	9
100,000-- 249,999	8	2,000,000-- 2,999,999	1
250,000-- 499,999	10	3,000,000-- 3,999,999	3
<b>500,000-- 749,999</b>	<b>10</b>	4,000,000-- 4,999,999	1
750,000-- 999,999	6	5,000,000-- 9,999,999	4

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

### **The State of Michigan**

The State of Michigan has provided funding for cultural organizations and activities in different ways, including direct appropriations to specific cultural institutions, payments to cities for operating cultural facilities, and support for the Michigan Council for the Arts, for its successor agency, the Michigan Council for Arts and Cultural Affairs, and for local arts councils.

**State Line Item Appropriations** The state budget includes line item appropriations for support of major arts and cultural institutions that are part of Detroit city government, as well as other major private, nonprofit cultural institutions.

Line item appropriations comprise the "Detroit equity grant," which in this report includes the special grant to the Detroit Public Library appropriated in the state's Library of Michigan budget. Appropriations made to the private, nonprofit Detroit Symphony, which is not part of Detroit city

government, are not included as part of the City of Detroit grant in this report. That part of the outstate equity program reserved for cities with populations greater than one million that is appropriated by the city to Belle Isle (\$1,541,600 of \$4,523,300 in 1993) is included in Detroit equity grant figures reported here, but those portions of the state equity grants to Detroit that are not for cultural programs (grants for Police special events and Police crime lab, for example) are not included.

In Table 7 the state equity grants to the City of Detroit government (column 1) include those grants that are made to Detroit government cultural agencies and include the Detroit Public Library (DPL) special allocation as part of the state equity program because it was negotiated at the same time and for the same reasons as equity funding directed to the city's general fund. Other state grants to DPL and to other libraries are not included as part of the equity program. The "Other" column (column 2) includes outstate equity grants and grants to non-governmental institutions in Detroit.

**Table 7**  
**State Equity Grants to Cultural Institutions and Activities**

	<b>City of Detroit Government</b>	<b>Other</b>
1976-77	\$ 9,702,000	
1977-78	11,591,000	
1978-79	14,342,000	
1979-80	19,277,000	
1980-81	19,277,000	
1981-82	24,177,600	
1982-83	23,340,000	
1983-84	29,164,200	
1984-85	30,014,200	\$ 4,000,000
1985-86	32,014,200	6,000,000
1986-87	32,214,200	6,400,000
1987-88	32,194,600	6,110,600
1988-89	32,360,200	6,200,000
1989-90	31,551,244	6,300,000
1990-91	28,011,542	14,758,300
1991-92	20,780,100	8,398,600
1992-93	20,298,300	7,881,700

Source: Senate Fiscal Agency Statistical Reports; City of Detroit  
Budget Department.

The equity program established in 1976 to assist the fiscal distressed City of Detroit was extended in fiscal 1984-85 to other recipients for support of cultural and historical projects, zoos, libraries, tourism, and economic development. The equity program for non-Detroit recipients has remained much smaller than the Detroit grant. The detail of the 1992-93 state budget appropriation, as amended by state executive order reductions, is reflected in Table 8.

**Table 8**  
**State of Michigan 1992-93 Budget Appropriations**

Specific Grantees:	City of Detroit Government	Other
Detroit Institute of Arts	\$ 9,648,800	
Detroit Historical Department	1,950,700	
Detroit Zoological Department	1,393,200	
Detroit Symphony Orchestra		\$1,759,500
Edison Institute		111,500
Grand Rapids Museum		2,493,700
Regional Grants:		
Cities with population exceeding 1 million		
Allocation to Belle Isle	1,541,600	
Cities with population between 125,000 and 1 million		1,114,600
Cities with population between 40,000 and 125,000	1,170,400	
Cities with population under 40,000	1,232,000	
Detroit Public Library Special Grant	5,764,000	
Total	\$20,298,300	\$7,881,700

Source: Senate Fiscal Agency; CRC Calculations.

While data are not available to compare Michigan with other states, support for all of these functions, the Association of Art Museum Directors 1992 Statistical Survey does allow a comparison of state support for major art museums (see Table 9). Even with the reductions in fiscal 1991, no other state contributed as much as Michigan to the support of an art museum. In fact, the further reduced fiscal 1992-93 state support would still result in the DIA receiving more state support than any of the other museums reported in 1991. Both the DIA and the University of Michigan Museum of Art appear in the list of the dozen museums that received the most funding from a state government.

**Table 9**  
**State Government Support for Art Museums: 1991**

Art Museum	Total Operating Income	State Government Support Amount	Rank
Detroit Institute of Arts	\$23,237,800	\$13,406,100	1
Virginia Museum of Fine Arts	12,796,500	7,733,500	2
North Carolina Museum of Art	4,871,286	3,073,116	3
Ringling Museum of Art	4,760,714	2,453,687	4
Newark Museum	5,830,234	1,743,500	5
Indiana University Art Museum	1,429,830	1,404,133	6
Art Institute of Chicago	43,796,856	1,118,747	7
Samuel P. Harn Museum of Art	1,707,901	1,054,914	8
University of Iowa Museum of Art	1,119,287	1,018,166	9
Georgia Museum of Art	1,071,492	945,468	10
University of Michigan Museum of Art	1,164,723	747,150	11
Metropolitan Museum of Art	168,103,322	739,501	12

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

**State Arts Agencies** In addition to line item appropriations for specific cultural institutions and regional equity grants, the state has provided funding for a state-level arts council that in turn supported smaller arts organizations and individual artists. The former Michigan Council for the Arts (MCA) was established in 1966 with a \$5,000 grant from the state Legislature. MCA efforts to stimulate, encourage, and expand the arts in Michigan included development of local arts agencies such as the Detroit Council of the Arts, which was eliminated as a department in the city's 1993 budget. Other MCA projects included Michigan Artrain; the arts outreach, arts in education, and artist in residence programs; operational support grants to large and small arts organizations; and grants for specific arts projects and to individual artists. MCA was located in the state Department of Management and Budget.

MCA was succeeded on September 1, 1991, by the Michigan Council for Arts and Cultural Affairs (MCACA). That Council was created by an executive order of the Governor as part of a compromise between the governor, who initially recommended eliminating state funding for the arts, and 13 prominent arts patrons. The Michigan Council for Arts and Cultural Affairs was established in the Michigan Department of Commerce and was to be responsible for accepting and disbursing grants from private entities, the National Endowment for the Arts, and other public entities, including state equity grants, but in fact retained control of only a small proportion of cultural grant funding in the 1992-93 budget.

**Table 10**  
**Michigan Council for Arts and Cultural Affairs**  
**1992-93 Appropriations**

Administration	\$ 858,500
Arts and Cultural Grants	3,645,400
Interlochen	193,400
Blue Lake Fine Arts Camp	57,000
Grand Rapids Symphony	<u>237,500</u>
Total	\$4,991,800

Source: Senate Fiscal Agency.

The mission of the new state arts agency is “to encourage, develop and facilitate an enriched environment for creative cultural activity in Michigan.” The original state budget for 1992-93 contained \$4,577,600 for MCACA administration and discretionary grants and \$513,600 for designated grants, but an executive order reduced those amounts by a total of \$99,400 to \$4,503,900 for administration and discretionary grants and \$487,900 for designated grants.

According to the State Arts Agency Profile published in May 1992 by the National Assembly of State Arts-Agencies, state-level budget crises resulted in the decline of aggregate legislative appropriations to state arts agencies in 1991. In fiscal 1992, total state legislative appropriations to state arts agencies fell below the 1987 level. Of 56 state and territorial arts agencies 36 reported decreases in legislative appropriations between 1991 and 1992. Michigan was one of eight states in which that decrease exceeded 20 percent.

**Table 11**  
**Legislative Appropriations for the Michigan State Arts Agencies**

<b>Year</b>	<b>Amount</b>	<b>Year</b>	<b>Amount</b>	<b>Year</b>	<b>Amount</b>
<b>1969</b>	\$ 109,000	<b>1977</b>	\$ 1,891,600	<b>1985</b>	\$ 8,817,400
<b>1970</b>	140,000	<b>1978</b>	3,733,600	<b>1986</b>	10,291,500
<b>1971</b>	219,952	<b>1979</b>	5,024,100	<b>1987</b>	11,426,104
<b>1972</b>	237,710	<b>1980</b>	6,075,500	<b>1988</b>	12,611,306
<b>1973</b>	251,349	<b>1981</b>	5,036,700	<b>1989</b>	12,465,600
<b>1974</b>	484,800	<b>1982</b>	5,155,500	<b>1990</b>	12,232,700
<b>1975</b>	2,109,000	<b>1983</b>	5,217,200	<b>1991</b>	9,151,800
<b>1976</b>	2,330,000	<b>1984</b>	7,359,900	<b>1992</b>	4,200,000

Source: National Assembly of State Arts Agencies, The State of State Arts Agencies, 1992.

According to the National Assembly of State Arts Agencies annual survey, the 1992 Michigan state appropriation of \$4.2 million was the 11th largest appropriation to a state arts agency among the 50 states and the District of Columbia. However, on a per capita basis, Michigan's 1992 appropriation to the state arts agency ranked 42nd among those 51 units. The report does not indicate how many other states also appropriate separately and directly to major arts and cultural institutions.

### **The Outlook for City and State of Michigan Funding**

High tax rates and an eroding tax base, a deteriorating economy, declining federal source revenues, and recent reductions in state source revenues have contributed to recent City of Detroit general fund deficits. Over the past two decades, Detroit has eliminated functions, reduced the number of city government employees, reduced salaries and wages of city employees, raised taxes, and sold deficit funding bonds. The city, with its eroding tax base and tremendous competing needs, is in a very poor position to maintain funding for cultural institutions from city resources.

If state funding for arts and cultural activities falls below essential levels, those city departments providing cultural amenities to the region will, once again be in direct competition with police, fire, public health, garbage collection, public lighting, recreation, economic development, and other activities for the city's limited resources. Similarly, nonprofit organizations including the Detroit Symphony Orchestra and friends and founders societies could be forced to heighten the competition with social service organizations for private contributions.

From fiscal 1977 through fiscal 1992, the Detroit equity package transferred over \$400 million from the state government to the City of Detroit to support cultural institutions. The Detroit equity package was in addition to other programs such as state revenue sharing, gas and weight tax distributions, mass transportation grants, health grants, and other transfers that are expected to provide about \$372 million to the city in fiscal 1993 alone.

The current state administration inherited a general fund deficit estimated at about \$1.8 billion. Among the expenditure reductions imposed to resolve the deficit were cuts in the Detroit equity program, which was reduced from \$28.0 million in 1991 to \$20.8 million in fiscal 1992 and further reduced to \$20.3 million in 1993. There were also reductions in funding available for other cultural organizations.

Changes in the manufacturing base in this state have reduced per capita personal income from the previous above average levels to about 0.3 percent below the national average throughout the 1980s, and to 2.1 percent below the national average in 1991. The high tax structure built during the period when state income was high is under attack, as is the size of state government. It seems improbable that state funding for City of Detroit and other cultural institutions will be restored to previous high levels. As the state government grapples with a structural imbalance in its budget and moves to minimize state support for the arts, it is possible that further cuts in public funds may be made in spite of art patrons' efforts to protect arts projects and institutions. Continuing efforts to eliminate line item appropriations to specific institutions and to consolidate state arts and cultural funding in the state arts agency could also affect the amounts available to major institutions.

### **Nonprofit Arts Support Organizations in Michigan**

There are several nonprofit organizations which have as their mission the support and assistance of arts organizations. Among these are Concerned Citizens for the Arts in Michigan, a statewide public education and advocacy organization formed in 1983, which seeks to increase support for the arts among individuals, corporations, foundations, and government. Concerned Citizens for the Arts in Michigan is affiliated with Michigan Advocates for the Arts, a lobbying organization. Business Volunteers for the Arts links volunteers who can provide managerial and planning assistance to arts organizations. In addition to helping arts organizations improve their business practices, Business Volunteers for the Arts works to develop programs that increase cooperation, understanding, and communications between business and the arts.

## **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 some 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**

<b>Fiscal Year</b>	<b>DIA Revenues</b>	<b>State Appropriation</b>	<b>Founders Contribution*</b>	<b>DIA Income</b>	<b>City Contribution</b>
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**

<b>Fiscal Year</b>	<b>Total Contributions</b>	<b>Additions to Endowments</b>	<b>Additions to Restricted Funds</b>	<b>Operating Revenues</b>	<b>Gifts of Art</b>
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	-	-
<b>21</b>	<b>Detroit Institute of Arts</b>	<b>44.3</b>	<b>0.4</b>	<b>13.4</b>	<b>-</b>	<b>0.5</b>
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.

## **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. Cultural institutions 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**

<b>Population</b>				
	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>
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
<b>Employment</b>				
	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>
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
<b>Per Capita Income</b>				
	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>
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
<b>State Equalized Value (in millions)</b>				
	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>
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 expansion

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 non-residents. 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 multi-county 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-county region, and 396 in the seven-county region.

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

	<b>Total</b>	<b>County</b>	<b>Municipal</b>	<b>Township</b>	<b>School Districts</b>	<b>Special Districts</b>
Wayne	89	1	34	10	36	8
Oakland	95	1	39	21	29	5
Macomb	<u>54</u>	<u>1</u>	<u>15</u>	<u>12</u>	<u>22</u>	<u>4</u>
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	<u>44</u>	<u>1</u>	<u>8</u>	<u>23</u>	<u>8</u>	<u>4</u>
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 1970s. 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**

	<b>1990-91 Original Appropriation</b>	<b>1990-91 Final Appropriation</b>	<b>1991-92 Appropriation</b>
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	110,200	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
<b>Total</b>	<b>\$44,977,565</b>	<b>\$38,324,390</b>	<b>\$22,656,665</b>

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**

	<b>Not Collections (in millions)</b>
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)**

	<b>Nominal SEV</b>	<b>Real (Deflated) SEV</b>
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)**

	<b>Wayne</b>	<b>Oakland</b>	<b>Macomb</b>	<b>Washtenaw</b>	<b>Monroe</b>	<b>St. Clair</b>	<b>Livingston</b>
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)**

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

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 some 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)**

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

\*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)**

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

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	
<b>Subtotal-Wayne, Oakland and Macomb</b>	<b>\$837.0</b>	<b>\$356.2</b>	<b>.140</b>
Washtenaw	65.8	28.0	
Livingston	10.5	4.5	
Monroe	14.1	6.0	
St. Clair	13.5	5.7	
<b>Grand Total</b>	<b>\$940.9</b>	<b>\$400.4</b>	<b>.125</b>

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
<b>Subtotal-Wayne, Oakland and Macomb</b>	<b>\$278.5</b>		
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
<b>Grand Total</b>	<b>\$303.6</b>		

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)**

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

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.

## **CHAPTER VII GOVERNANCE, RESPONSIBILITY, AND ACCOUNTABILITY**

### **The Issues**

Among the primary considerations in evaluating alternative funding and operating strategies are the potential relationships among and the respective responsibilities of the city, the private operator, and the taxing authority.

**Ownership** Much of the controversy about regionalization and privatization will focus on the issue of ownership of regional cultural facilities. Ownership of regional cultural institutions need not change. The city could continue to own the land, buildings, and collections it now owns, although this entails certain legal liabilities. A decision to donate the physical assets associated with transferred functions to the operating entity or to a regional authority would relieve city taxpayers of potential liability. There may, however, be legal constraints on the transfer of some donated assets. Alternatively, the city could lease its facilities to private, nonprofit organizations charged with operations or to the regional authority.

The regional authority should be empowered to develop new facilities to increase the number and variety of regional attractions. If revenues from taxes, projected earned income, government and private contributions, and other sources would support construction and operation costs, the regional authority could finance the construction of a new Great Lakes aquarium or other major additions to the region's cultural infrastructure.

**Governance** Controversy will also focus on the issue of governance of the participating institutions. Governance issues include the appointing authority and the degree of independence of the boards of the institutions, as well as who appoints the directors of institutions. Policy decisions include what services, products, or programs to produce; how much to produce; at what cost; and the source of funding. Policy could be determined at the institution level, at the city level for city-owned institutions, or at the regional level.

The issue of governance is central to resolution of the problem. Clearly, as long as state funding makes it possible, the City of Detroit would likely prefer to retain ownership and control of those facilities that are now city departments; the city government has been charging the DIA, historical museum, and main library millions of dollars more for services than it has given them in funding. If those institutions were no longer able to be self-sustaining, the city's position might change. Given the history of lack of regional cooperation in southeast Michigan, suburban support for regional cultural institutions may be contingent on assurances that suburban funds would not be used to support general City of Detroit operations, and that smaller, local cultural organizations would receive their fair share of regional tax money.

**Administration** Administrative issues would arise if a transition of city institutions to private, nonprofit operation or regional authority operation occurred. Personnel issues would have to be resolved among the parties: salaries and benefits, civil service protection, union membership and contracts, seniority, residency requirements, and pension system membership. Salaries, benefits, and retirement systems, and the associated costs, differ substantially between city and non-city institutions, and between large and small arts organizations. For city-owned institutions, purchasing, voucher and payroll processing, data processing, security, and other functions could be performed by the institutions, by contract with a private firm, by the city, or by the authority.

Sharing of responsibility for various activities could occur on many levels. Employees who are now city employees could become authority employees while retaining their membership in the city pension system, with the funding authority paying the full actuarial costs of their continued membership. Concession revenues could be entirely retained by the institution where they are earned, or they could be split between that institution and the authority, for distribution to all regional cultural institutions, or all concession revenues could flow to the authority's general fund.

**Accessibility to the Public** Transfer of control of cultural institutions from the city to another entity raises issues of public accessibility as well. Certain hours or days could be designated as free days for everyone. Youngsters and the elderly could always be allowed in at reduced rates. Detroit residents could be admitted to city-owned museums, Belle Isle, and the zoos without charge in recognition of their contribution to the creation and support of these facilities.

### **The Distribution of Authority**

This analysis has included both city-owned and private, nonprofit institutions, and has suggested the possibility of establishing another public entity that would be the basis of regional cultural support. Ownership, tax authority, governance, and administration and management of regional cultural institutions may be distributed among existing political units, a new authority, or the individual institutions in various ways. It may therefore be useful to identify some of the various components of ownership and responsibility. This list may be a helpful tool in an exploration of the various ways the responsibility and authority may be apportioned among existing political units, the directors of private cultural organizations, nonprofit friends or founders societies, and a new regional taxing authority. It is understood that institutions have very different kinds and values of assets and different relationships between assets and operations.

<b>Ownership</b>	<b>Administration/Management</b>	<b>Policy Formulation</b>	<b>Tax Authority</b>
Land	Finance	Program Selection	Operating
Buildings	Personnel	Revenue Development	Capital
Collections	Purchasing		
	Security		
	Maintenance		

Distribution of responsibility and authority for these functions can be seen as a continuum, with one extreme representing no change in existing roles, and the other extreme representing complete control by a regional authority that owns, funds, and operates participating cultural institutions. Interim positions on the continuum would be taken by a regional authority that was a funding mechanism only; by a regional authority that offered limited services such as auditing and health insurance to member institutions; by a regional authority that negotiated contracts with service providers designating specific performance requirements; by a regional authority that coordinated program offerings among member institutions; by a regional authority that owned and operated facilities. A regional authority could be designed that occupied any position on the continuum. Three of those possible positions are discussed in more detail in the following sections.

**The Authority as Funding Source Only** The most limited role for a regional authority would be the clerical functions required to collect and distribute dedicated tax revenues. In this case, the tax and its allocation among specific institutions would be established by the voters. The City of Detroit could retain ownership of all its cultural facilities, employees of those institutions

could remain City of Detroit employees subject to city labor contracts and civil service, city staff operations could be retained, the city could retain all revenues generated by the operation of the facilities, and could charge the city institutions for overhead, police, fire, and garbage collection. Founders and friends societies would continue to solicit additional private funds. Nonprofit institutions that are now governed by independent boards would continue to be governed by those boards, which would determine how available resources were to be used. The new authority could transfer money collected from the region to the city's general fund for the operation of eligible city facilities, and to the existing boards of eligible independent organizations. Thus, both the city and participating private nonprofit organizations could continue under existing management and collect a predetermined share of regional tax revenues. At this end of the continuum, there would be no system established to make the institutions accountable to the authority or to the citizens/taxpayers of the region.

**Shared Governance** One intermediate approach would provide a much larger role for nonprofit operators of city-owned institutions. Nonprofits would operate regional facilities and the authority would allocate tax funds based on budget requests. The city would continue to own the physical assets, the nonprofit "support" organization would operate the facility and provide services, and operations would be funded by a regional authority. This funding could be based on proposed operating budget requests submitted by the institutions to the regional authority.

Decisions would have to be made as to who would be responsible for capital bonds, maintenance and security operations, and insurance. If the city were unable to contribute, all operating and capital funds would come from earned revenues, contributions, and the regional tax.

Institutions that are now independent could request both operating and capital budgets from the regional funding authority, or could continue to conduct their own fund raising activities to obtain additional resources. Staff functions (personnel, payroll, purchasing, data processing, etc.) for the nonprofit operators could be performed on contract by the city, a private firm, the new regional authority, or in-house, depending on costs and performance.

The board of the regional authority would consider budget requests, determine the allocations available to each institution, set goals, and review expenditures and achievements.

**The Authority as Producer** Regional funding could be based on a system in which the regional taxing authority was also the service provider. If this were the case, it is probable that Detroit might insist on being reimbursed for the equity it has in city assets. Where covenants do not permit sale or transfer of ownership, items or facilities could be on permanent, compensated loan from the city. If required to make a substantial payment to the city, the authority could investigate a sale-lease back, the sale of tax depreciation credits on the buildings, or could sell voter authorized bonds repayable from an unlimited property tax levy, or could sell bonds repayable from future state or local grants that had been pledged for that purpose. The physical assets of the DIA are substantial (specifically the art collection); the physical assets of the other city-owned institutions are much less so. The authority could then exercise complete control of all regional cultural functions and facilities it owned, coordinating activities and allocating resources among them.

At the opposite end of the continuum, a condition of regional funding would be transfer of ownership of the physical assets of regional cultural institutions and transfer to the authority of gov-

ernance of those institutions. It is unlikely that any private, nonprofit organization not faced with bankruptcy would participate on this basis.

The integration of smaller arts organizations into this kind of centralized structure would not be precluded, but it should be recognized that a large, bureaucratic structure is not generally conducive to innovative programming.

**Resolving Authority Issues** It is clear that a large number of issues would have to be resolved, and that numerous permutations of ownership, authority, and responsibility are possible. The broad framework of the city retaining ownership of physical assets, the nonprofit friends or founders society providing services, and the regional taxing authority providing tax support may provide the best approach to resolving governance issues. This structure would allow flexibility in developing arrangements among the city, regional authority, and nonprofit organizations, and could apply to major institutions and to smaller cultural organizations.

### **The Board of Directors**

If the regional authority were constituted in such a way that the authority exercised discretion in the determination of the tax rate or the distribution of operating or capital funds among eligible institutions, a policy making body--a board--would be necessary. The regional authority could incorporate a board of governors (or regents, directors, etc.) with the budget authority to allocate voted revenues among participating institutions and organizations. The members of the board of a regional cultural authority could be directly elected, designated ex officio city and county officials, appointed by city, county, or state officials, or selected by the members of boards of participating institutions from their own membership. The degree of influence this board would have on the administration of participating facilities and organizations could vary from none to extensive, depending on the demands and concessions made during the negotiating process and incorporated in the state statute and authority charter. The governing bodies of most governmental units in Michigan that have the authority to levy taxes are elected by the people to enhance accountability.

The composition of the board of a regional authority would be a matter of some concern. Elected board members' natural sensitivity to community standards might be viewed as an undesirable constraint by some in the arts community. Direct, at large, election of board members would insure that they did indeed have a regional perspective, consistent with the service area and the funding base. On the other hand, election of board members from districts could inject the tendency to favor local arts organizations at the expense of regional facilities.

An alternate method would be appointment of the members of the regional board by the chief executive officer of Detroit and of participating counties, with approval by the legislative body of the city or county. Some members could be appointed by the governor. Board memberships could be allocated using a formula that includes location of facilities, population, tax support, value of institutions represented in the regional plan, etc. The appointment method could result in board members who are protected from the problems associated with running for public office, but who do not have a regional outlook, are insulated from accountability to the voters, and define their roles as protecting the rights and privileges of their city or county.

If a regional authority were only a channel for distributing tax receipts to cultural institutions using a predetermined formula, there would be no need for a board of directors. An accountant

working for the tax collecting entity could record revenues, determine and reimburse collection costs, and distribute available funds according to the formula. This system would not challenge the existing governance of institutions: city executive departments would continue to be responsible either directly or through their boards to the mayor, and private, nonprofit organizations would continue to be responsible to their governing boards.

## **The City's Position**

Development of a regional base of support may result in deadlock if Detroit officials demand complete control of assets, and regional taxpayers demand guarantees of shared control over how the money is spent. The mayor's 1992-93 budget message contained a statement of the city executives position:

Two words we've heard a lot about lately are "privatization" and "regionalism." We are looking at both approaches in several different areas. But I think you know my belief that neither privatization nor regionalism is some sort of magic panacea for our problems.

I want to tell you up front that this budget does not propose to dispose of any of the City's assets in a fire sale atmosphere. I was not elected Mayor to dismantle Detroit one piece at a time, selling off our jewels to some sort of regional pawnbroker.

I share the belief of many that the whole southeast Michigan region will, in the end, rise or fall together. We are interconnected.

But Detroit is still one of America's great cities. These major institutions are part of being a great city.

To those outside the City who share our love for the Detroit Institute of Arts, the Zoo, Belle Isle, and other jewels, let me say we welcome your concern. But you can best demonstrate that concern by working with us in a joint effort to keep these institutions strong, not by trying to relieve us of them.

The Mayor's Committee for the 21st Century divided in support and opposition to proposals to regionalize cultural facilities, with some members interpreting the suggestion as an attempt by white suburbanites to grab power, prestige, and assets from the minority controlled City of Detroit. The resolution adopted on March 25, 1992, by the Mayor's Committee for the 21st Century appears to reflect the administration's position on regionalization and privatization.

The recommendations to regionalize or privatize are adopted with the sense and intent of the Committee that the (1) governance structure will provide representation commensurate with the assets transferred and operational funding provided, (2) that such representation would be maintained in the long term governance, (3) compensation would be provided, where appropriate, for equity in any asset transferred, (4) fair and equitable funding would be arranged, and (5) location and name of major assets would not be changed.

## **The Nature of Public Institutions**

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

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

Detroit officials have exhibited a history of careful evaluation of essential services and, when necessary, transfer to another public or private entity of functions such as the Detroit House of Corrections and Detroit General Hospital that the city could no longer afford. Analysis of the fiscal trends of the city make it abundantly clear that Detroit's limited public resources cannot, and should not, be used to support institutions that serve a regional audience. It is also clear that state grants, which have delayed this crisis for 15 years, are subject to political and fiscal pressures that may necessitate the development of other solutions. It is time for the citizens of the region to accept responsibility for those cultural institutions that help to define southeast Michigan.

## **Alternatives for Individual Facilities**

Attempts to create a single structure to support all regional cultural institutions may not be successful. There are alternatives for individual institutions if tax support declines.

Private donations to the Detroit Institute of Arts (DIA) could increase if the administration of the facility were under a private, nonprofit entity that was perceived to operate in a more cost efficient, effective manner. Forcing the facility to depend on fees and donations could also force it to broaden its appeal and become more responsive to more potential patrons. Although mandatory entrance fees have been imposed, the DIA may be able to develop sufficient appeal to generate a larger portion of required funding from general and special admissions fees, especially if these fees are set at a level comparable to those at other regional assets such as the private, nonprofit Henry Ford Museum and Greenfield Village. Building the endowment fund, another potential way to improve financial security, might be more successful if the management of the museum were independent of city government.

The Detroit Symphony is already a private organization, and while it has faced crises, it has survived, as have the private Michigan Opera Theater, Cranbrook, the Henry Ford Museum and

Greenfield Village, and numerous smaller arts and cultural institutions. Independent, private, nonprofit status may prove to be in the best interest of these organizations in the long run. They could also follow the example of Baltimore institutions and lobby county officials for direct financial assistance.

The Detroit Science Center is also a private entity. The Science Center was closed in November 1990 after losing \$514,000 in state funding. The reopening in September 1991 was made possible by an agreement to lease space for a science academy with the Detroit Public Schools, private fund raising, and reorganization to cut operating costs. This science museum could be further integrated into the Detroit Public School District as a magnet science school.

The Main Zoo, which is located in Oakland County rather than in Detroit, could be sold, leased, donated, or otherwise transferred to the Oakland County Parks Department or become a private, nonprofit institution.

Belle Isle could be sold, leased, or otherwise transferred to the Huron Clinton Metropolitan Authority or to the Wayne County Parks Department. It is very probable that the vast majority of users of Belle Isle are Detroit residents, but Detroiters pay county taxes, and get relatively few county services compared to out-county residents. Therefore, county support of a park used primarily by Detroiters, who are Wayne County residents, is appropriate. Detroiters also pay property taxes to the Huron Clinton Metropolitan Authority, although there are no regional authority parks within the city. HCMA support of a facility used primarily by Detroiters is appropriate.

The Main Historical Museum is not a regional attraction like the Henry Ford Museum and Greenfield Village. It would be appropriate for the Main Historical Museum to be consolidated with the Afro-American Museum (Detroit is over 76 percent Black), providing a distinctive purpose that appeals to Detroit residents.

Fort Wayne, which has been closed to the general public since December 1991, could be sold, leased, or given to the Huron Clinton Metropolitan Authority or to the Wayne County Parks Department, using the same reasoning and assumptions as are applicable to Belle Isle. Because of the historical significance of this never armed fort, inclusion in the state parks system would be appropriate. Creation of a separate park authority has resulted in the development and marketing of historic Fort Mackinac; a similar structure could be adopted for Fort Wayne. Designation as a national historic monument and operation by the National Parks Service could bring significant investment and publicity to the fort. Transfer of Fort Wayne to the private, nonprofit Edison Institute could encourage development of specialty exhibits and programs particularly suited to the military character of the fort.

Detroit voters have already approved two mills for library support (appropriated by the city to branch operations), and state law requires the pass-through of .64 mill from the Board of Education levy and the assignment of penal fines to the library department. Since there is no clear statutory authorization or limit on Detroit Public Library millage, voter approval could be sought for further increases in the property tax levy to support Main Library operations. At the current SEV of \$5,704.1 million, another one-mill increase in the library tax would produce a levy of \$5.7 million, nearly enough to replace the special state grant. An alternative solution would incorporate the Main Library into the adjacent Wayne State University.

While regional funding would help assure the future viability of cultural institutions, there are alternatives for many of these institutions.

## **CHAPTER VIII FACING THE FUTURE**

Continuing erosion in the quantity and quality of services provided by city-owned cultural institutions adversely affects the image and the competitiveness of the city, the region, and the state. Transfer of responsibility for operations of arts and cultural facilities from city government to nonprofit organizations would allow the city administration to concentrate its efforts and resources on higher priority services, and may facilitate development of regional support. The facilities would continue to be in the city, and any major economic benefits derived from them would be unchanged, although working conditions, wage rates, and numbers of employees at the facilities could be affected.

The mayor of Detroit has indicated that the city might sell the DIA, zoo, and other cultural institutions for a “fair” price. The price mentioned for the DIA is \$2 billion (which is approximately the amount of the city’s total annual budget). The only way the city’s estimate of \$2 billion for the art institute might be realized is by selling off the works of art individually (there may be impediments and prohibitions on the sale of works of art donated or bequeathed to the city) and selling the land and building. It is highly improbable that the state, or a regional authority, or the county, or anyone else would be willing to pay \$2 billion to purchase the DIA. If a public body obtained approval to sell bonds to purchase the DIA, the debt service requirements for principal and interest on that debt for 30 years at eight percent would be \$178 million each year. Nor is it at all probable that a nonprofit corporation could generate sufficient revenues to retire that debt without selling off works of art, or that a for-profit corporation would spend \$2 billion to continue an operation that requires millions of dollars of additional subsidy or for works of art that may not be legally transferable.

Temporary closing of the DIA and other facilities in 1976 galvanized the state to provide the equity funding for Detroit that came to support cultural and other facilities and activities. The current, albeit reduced, level of state funding is sufficient to keep most of Detroit’s cultural facilities open, but further reductions or changes in the allocations of state aid may precipitate another crisis. Alternative methods of funding these institutions should be developed before another crisis occurs.

The Detroit Institute of Arts, Detroit Zoo, Belle Isle, and other regional cultural institutions are an essential part of the identity and quality of life of this region. To lose these symbols of our identity would diminish our stature and weaken our civic and cultural infrastructure. If the region were to lose these premier cultural institutions, it would become less competitive in attracting and retaining residents and businesses.

The regional response to the potential loss of Detroit cultural institutions could take various forms. Efforts designed to save the existing facilities could include establishment of a regional cultural authority or any of the other strategies for one or more of the institutions discussed in this paper.

### **In Conclusion**

It should not be the purpose, obligation, or responsibility of a city government, whether poor or wealthy, to provide non-essential services primarily to people who live somewhere else. Detroit officials have recognized this fact for many years.

At the same time, it is vitally important to the City of Detroit and to southeast Michigan to protect and promote those cultural institutions that contribute significantly to the identity, the quality of life, and the civic and social infrastructure of the city and the region. The economic impact and social value of retaining major cultural institutions may justify public investment in those assets.

There are several options for insuring the future of those Detroit based cultural institutions that now receive state equity funding. Some may remain viable under the operation of private, non-profit corporations. Others could survive as parts of different, existing governmental units (Wayne County, Oakland County, or the Huron Clinton Metropolitan Authority), if such a transfer could be achieved. If voters of Wayne, Oakland, and Macomb counties could be persuaded to approve a regional tax, Detroit area cultural institutions could be supported by a funding base that is generally coterminous with the area served.

Adoption of a five-to six-percent entertainment tax in the three-county region could be combined with continued city ownership of physical assets now owned by the city and establishment of responsibility for all operations in independent, nonprofit organizations headed by appointed boards of directors. Efforts to develop a dedicated regional tax and an acceptable distribution formula should be coordinated with MCACA and state officials to protect state cultural funding during and after the transition period.

It is legally and morally appropriate that the voters of the region served by cultural institutions be given the opportunity to decide whether, and under what conditions regional taxes should be used to support specified regional activities, including cultural institutions. Because there are many issues to be resolved, there may be various proposals for the structure, administration, and funding of a regional authority. Voters would have to be satisfied on issues of responsiveness, efficiency and economy, tax rates and extent of tax base, distribution of funds, local autonomy, governance and control, accessibility, and relevance. It may well be that voters would need to address this issue several times over an extended period before an acceptable compromise is adopted or the search is abandoned.

Important issues that must be considered in the debate on funding of public services are the effects of an increase in taxes on the region and the importance of cultural institutions relative to other regional needs. Whether the beneficial economic and social impact of cultural institutions, or of any other regional service, can offset the detrimental economic and social impact of higher taxes is a question that must be addressed. Part of this debate should rely on a rational assessment of the real economic, political, social, and emotional value of cultural institutions.

All of the preceding concepts are an attempt to promote a fresh evaluation of the best way to preserve city, regional, and state treasures in the face of economic trends and political agendas. Whatever the solution, there will be a need for effective planning and advance research, and for mounting an intensive effort to educate the community on the issues and to explain the rationale and consequences. There is an existing infrastructure of arts organizations in place that can lead this effort. They will need to enlist the support of the civic, community, business, and political leadership of the region to develop a consensus on the most feasible method for supporting regional cultural institutions.