



CRC Memorandum

No. 1067

A publication of the Citizens Research Council of Michigan

September 2002

PROPOSAL K: AN ARTS AND CULTURE TAX FOR OAKLAND AND WAYNE COUNTIES

In June 1993, CRC published Report No. 309, *Alternative Funding Strategies for the Support of Regional Cultural Facilities in Southeast Michigan*. This report recommended creation of a Southeast Michigan Regional Cultural Authority with a dedicated tax to finance operations of Belle Isle Park, Cranbrook Art Museum, the Detroit Institute of Arts and Historical Museums, the Detroit Zoo, the Detroit Symphony and Orchestra Hall, the Edison Institute, and other cultural institutions.

Public Act 375 of 1998 amended Public Act 292 of 1989, to permit the City of Detroit and Wayne and Oakland counties to create a metropolitan regional council for arts and cultural funding, and to develop and enhance regional cultural institutions and local recreation and cultural facilities not primarily designed or used for professional sports. A metropolitan region council may levy a property tax of up to 0.5 mills and must spend net revenues on cultural and recreational programs and facilities.

Historically, public support for some cultural institutions was provided by the City of Detroit. When the financial condition of Detroit precluded the city from maintaining an adequate level of support, the State of Michigan assumed major responsibility for funding these institutions. State support for Detroit-owned cultural institutions grew from \$9.7 million in fiscal year 1976-77 to a high of \$32.4 million in 1988-89, and declined to \$20.3 million by 1992-93.

In 2000, the legislative bodies for the City of Detroit, Wayne County, and Oakland County approved participation in the Metropolitan Arts and Culture Council created pursuant to Act 375. At the November 7, 2000, general election, voters rejected a levy of one-half mill (0.5 mills) for 10 years to support regional cultural institutions and local arts and recreational programs. Proposal K did not achieve a majority of affirmative votes in each county necessary for adoption, failing in Oakland County (50.1 to 49.9 percent), but passing in Wayne County (54.9 to 45.1 percent). With minor changes, Proposal K will be submitted to Wayne and Oakland County voters at the November 5, 2002 general election. If it passes in both counties, it is estimated that the 0.5 mill levy will generate \$45 million in 2003.

The following will describe the governance structure established to oversee distribution of the funds collected by the proposed tax; how local governments benefit from the proposed tax; and safeguards that have been created to assure the funds will be used to the benefit of the Southeast Michigan region.

Arts and Culture Institutions

The articles of incorporation list 17 arts and cultural institutions that will receive funding from the Metropolitan Arts and Culture Council initially. Other cultural institutions could be added if they are tax exempt, have been in existence for at least 18 consecutive months and serve the role of a zoo, science center, public broadcast station, museum, historical center, performing arts center, visual or performance art instruction center, orchestra, chorus, chorale, or opera house. Professional sports arenas or stadiums; labor organizations; political organizations; libraries; and public, private, or charter schools do not qualify as regional cultural institutions under PA 375 and funds cannot be distributed to them from the proposed tax. The articles of incorporation also specify that an exhibit, performance, or presentation that is "obscene," as defined in Act 375, cannot receive funding from the Metropolitan Arts and Culture Council.

Institutions entitled to the distribution of revenues generated by the tax includes:

- Cranbrook Art Museum
- Cranbrook Institute of Science
- Cranbrook House and Gardens
- Charles H. Wright Museum of African-American History
- College for Creative Studies
- Detroit Historical Museums
- Detroit Institute of Arts
- Detroit Public Television
- Detroit Science Center
- Detroit Symphony Orchestra
- Detroit Zoological Institute
- Henry Ford Museum/Greenfield Village
- Holocaust Memorial Center
- Meadow Brook Hall
- Meadow Brook Theatre
- Michigan Opera Theatre
- Music Hall Center for Performing Arts

Citizens Research Council of Michigan

<http://www.crcmich.org>

38777 Six Mile Road • Suite 208 • Livonia, Michigan • 48152-2660 • (734) 542-8001 • Fax (734) 542-8004 • E-Mail crmcich@crmcich.org
1502 Michigan National Tower • Lansing, Michigan • 48933-1738 • (517) 485-9444 • Fax (517) 485-0423 • E-Mail tclay@crmcich.org

Arts, Culture, and Recreation Programs

Among the stated goals of targeting the proceeds from a tax to these institutions are to allow them to better fulfill the missions they were created to serve. Budget constraints over the years have caused some of these institutions to scale back services offered to the public, either in the hours they are open to the public or in the level of services offered. Additional funding from the tax will eliminate the budget constraints that led to these reduced services.

Additionally, new financial resources will allow these institutions to offer new programs. Each institution will offer either free or reduced admission to K-12 students in Wayne and Oakland Counties, and each institution will increase the outreach programs offered in the communities. The additional funds will allow these institutions to develop training programs to enhance the educational experiences of visiting students, and allow teachers to tie the visit to pre

and post visit curriculum.

Each institution will be required to provide a financial audit, and a programmatic report detailing the programs offered, the number of people attending the institution and outreach programs, and the educational material prepared. These will be reported to the Council, and the Council Board is required to prepare a comprehensive report of the activities for all the institutions.

Property Tax

The proposed tax on real and personal property in Oakland and Wayne Counties would raise as much as \$45 million in the first year. Macomb County residents also use these arts and cultural institutions, and Public Act 375 provides for participation only by counties with populations greater than 780,000 persons, which presently includes Macomb, but did not when the Act was passed. A 0.5 mill tax increase would cause property taxes to increase by one to two percent for homestead properties and about one percent for non-homestead properties.

This proposal has raised concerns that the property tax relief made pos-

sible by adoption of Proposal A of 1994 is being eroded. Other new millages are slowly bringing tax rates back up toward the tax rates common prior to 1994. Taxpayers in Oakland and Wayne counties are subject to total property tax rates that are, in general, 20 to 30 mills below the tax rates that were levied prior to the property tax relief, depending on the school operating millage levels prior to Proposal A.

Because of the overlapping nature of taxing jurisdictions in Michigan, taxpayers in the 105 cities, villages, and townships in Oakland and Wayne Counties actually pay 246 different tax rates. In 2000, apportionment

reports from these two counties show that 204 tax rates increased in these two counties and 42 decreased. The median increase was 3.18 mills and the median decrease was 0.96 mills. The increases were affected by some school districts levying site and debt millage, sinking fund millage, or both, such as the 12 mill increase in the part of Dearborn Heights served by District #7. Proposal A lessened the overall property tax burden, allowing taxing authorities to approach voters for support of functions such as cultural funding, where such tax questions might have been much more difficult prior to this relief.

As required by Public Act 375, the revenues generated by the 0.5 mill tax are to be used for both cultural and recreational programs.

Local Cultural and Recreation Programs. One-third of the revenues generated (equivalent to 0.167 mills) in each city, village, or portion of a township not incorporated as a village, are to remain with those entities. This portion of the tax will contribute about \$15 million to the 105 cities,

Distribution of Revenues

villages, and townships in these two counties. Public Act 375 specifies that those revenues be used to fund cultural and recreational programs and facilities. The funds can be used to enhance existing programs, create new programs, support community outreach programs by the regional cultural institutions, improve the arts and culture facilities, or anything else these communities decide to do with them.

It is also possible that municipalities could enact a tax reduction to offset part of the increase that would be caused if Proposal K is adopted. As of 2000, 15 cities and townships levy a dedicated millage for recreation and culture programs; 10 in Oakland County and 5 in Wayne County. These units levy just less than one mill, on average, for parks and recreation purposes. Other units provide recreation services using a portion of their general operating millage.

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Act 375 does not require local governments to expand their recreation and culture programs with this new money, so it could be used to fund existing programs. Therefore, some units could choose to reduce their existing taxes, either the dedicated millage or operating millage used for recreation programs, to offset some of the tax increase approval of this millage would cause. The regional arts tax could not, however, be used to replace debt millage.

Regional Cultural Institutions. The remaining two-thirds of the revenues generated by this tax (equivalent to 0.333 mills) are to be used to pay the administrative costs of the Metropolitan Arts and Culture Council and to be divided among the 17 regional cultural institutions. Two-thirds of the \$45 million projected to be collected in the first year will contribute about \$30 million to these institutions. No more than two percent of the revenues generated by the tax (\$900,000 if the tax yields \$45 million) may be used for admin-

istrative expenses.

The initial division of revenues from the tax among the 17 institutions is based on a 3-year rolling average of the operating expenditures of each institution as a percent of the total operating expenditures for all 17 institutions. No institution may receive more than \$4 million from this distribution. The distributions of four institutions – Henry Ford Museum/Greenfield Village, the Detroit Zoological Institute, the Detroit Institute of Arts, and the Detroit Symphony Orchestra – will be capped under this provision.

The 3-year average total operating expenditures of the 17 cultural institutions was about \$166.2 million in 1999. An increase of \$30 million would constitute an 18 percent increase for these institutions in total. However, because the cap limits institutions to no more than \$4 million in a year, individual institutions will benefit at different levels. Some of the larger institutions, whose dis-

tributions will be capped, will experience expenditure increases of about 11 percent. Smaller institutions could experience expenditure increases of about 23 percent.

Regarding the potential loss of existing local funding for Regional Cultural Institutions, the articles of incorporation of the Metropolitan Arts and Culture Council require that “... each county and local governmental unit is agreeing and consenting to the maintenance of the current financial contribution and support to the Regional Cultural institutions eligible under these articles.”

The only participating local unit of government currently subject to this provision is the City of Detroit. The Articles of Incorporation do not provide sanctions for local units that violate this article, though participating local units (Oakland and Wayne Counties and Detroit) are free to withdraw from the Council by resolution.

Governance

The Metropolitan Arts and Culture Council is a Michigan corporation governed by a 9-member board of directors. The board is responsible for administrative and hiring decisions, and any revisions to the formula to distribute tax revenues. Five governmental units make appointments to the board:

- 3 members are appointed by the Oakland County Executive (one of whom must be the Chair of the Oakland County Board of Commissioners), with approval of the Board of Commissioners;
- 3 members are appointed by the Mayor of the City of Detroit (one of whom must be a Wayne County Commissioner from a Detroit dis-

trict), with approval of City Council;

- 1 member is appointed by the Council of Western Wayne;
- 1 member is appointed by the Council of Eastern Wayne; and,
- 1 member is appointed by the Downriver Community Council.

Delegates to the board must be elected officials from the communities represented. The chairperson of the board must be from the county that provides the most tax revenue (Oakland). To account for tax revenue disparity in the City of Detroit, Oakland County, and Wayne County, the votes of representatives in each of the bodies is proportional to dollars collected from the tax in the jurisdiction. Accordingly, representatives from

- Oakland County hold 54 percent of the vote;
- outer-Wayne County hold 37 percent of the vote; and,
- the City of Detroit hold 9 percent of the vote.

Because this system of weighting representative voting strength gives Oakland County a majority, a two-thirds vote with at least one vote in the affirmative coming from a representative of each entity is necessary for any decisions that will result in

- changes to the formula for distributing revenues to the regional cultural institutions, or
- amendments to the articles of incorporation

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Citizens Research Council of Michigan

38777 Six Mile Road, Suite 208
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National Perspective

A number of other major U.S. cities – including Denver, St. Louis, Salt Lake City, Chicago, San Francisco, and Kansas City – have adopted dedicated taxes to support cultural and scientific institutions. Some cities have created authorities for funding and governance of their region's culture, arts, and recreation institutions. The authorities created in Denver and St. Louis have individual attributes that are similar to the structure under which the Detroit regional Metropolitan Arts and Culture Council will operate.

Denver. In 1988, Denver began levying a 0.1 percent sales tax to support 170 arts and science organizations. Like the Council being proposed for the Detroit region, a district was created in Denver to impose the tax, distribute the revenues, and review recipient organizations annually. In order to qualify for funding, the institution must meet the definition of a cultural facility: “any non-profit institutional organization or any agency of local government which has as its primary purpose the advancement and preservation of art, music, theatre, or dance.” The district does not exercise any

control or direction over the actions of the individual recipients.

St. Louis. St. Louis collects a dedicated property tax for its arts and culture institutions. A district board, with a staff of three full-time employees, is responsible for performing common services such as auditing, accounting, pension servicing, and payroll. As is being proposed for the Detroit region, representation on the board 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.

Other cities have adopted varying strategies of providing regional funding to their arts and cultural institutions.

- In Baltimore, the arts and cultural institutions receive annual budget appropriations from the City of Baltimore and the five surrounding counties.

- In New York, cultural institutions generally occupy city-owned land or buildings. The City uses grants to pay recipient institutions' energy bills and other operating costs including security and maintenance, administration, education programs, and capital improvements.

- Philadelphia has a similar arrangement, with the City owning the land and buildings of the Museum of Art, but responsibility for the art collection and operation of the museum rests with a nonprofit corporation. Because it owns the land and buildings, the city provides city employees for security, custodial, and building maintenance purposes, and annually contributes to capital improvements and major repairs, pays for utility costs, and contributes to the building operations costs.

- The Chicago Park District levies a tax of up to \$1.50 per \$1,000 of property value. In addition to supporting the parks and recreational facilities in Chicago, the proceeds benefit nine major, private, nonprofit cultural institutions.