

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.

Ownership	Administration/Management	Policy Formulation	Tax Authority
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.