



Advancing PHILANTHROPY

FALL 2015

Foundations effecting solutions

THE DOMINO EFFECT



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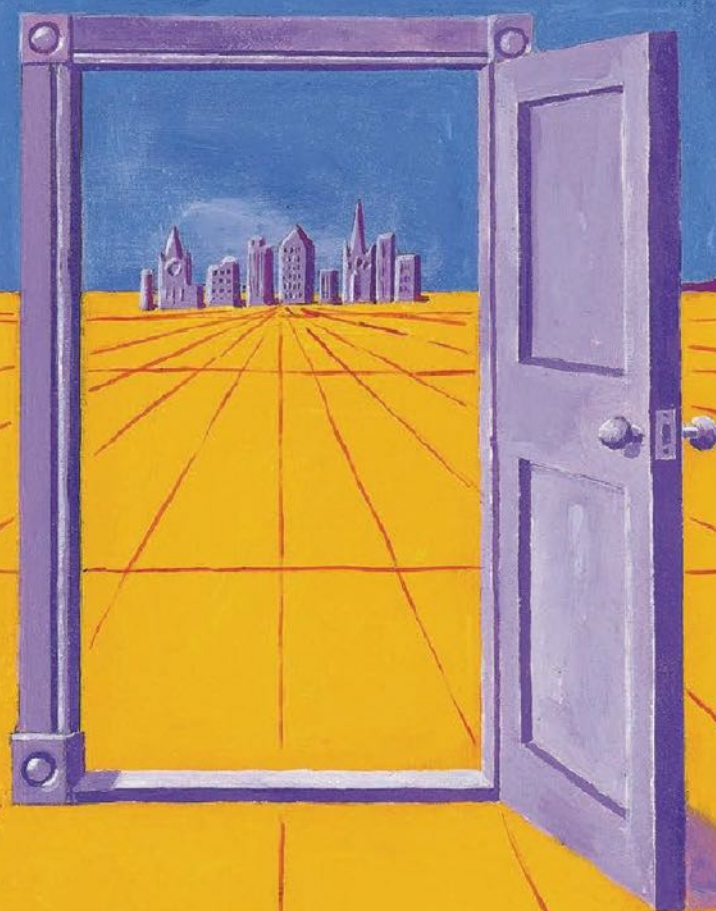
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OPENING THE DOOR

How Detroit's grand bargain illustrates collaboration
that has provided new opportunities, unique solutions
and successful outcomes

BY PAUL LAGASSE

The tale of Detroit, America's "Motor City," seemed to have reached an unhappy conclusion. The city rose from scrappy boomtown in the late 19th century to economic dominance by the middle of the 20th century. Despite signs of progress in the early decades of the 21st century, however, in 2013 the Detroit municipal government faced a humiliating bankruptcy. Luckily, a handful of visionary foundation leaders had other ideas about how the story should end.

The drama of a dozen charitable foundations' forming an alliance with government, businesses, unions and citizens to save a prized cultural resource while enabling the city to meet its pension obligations and emerge from bankruptcy is a case study of how philanthropy can catalyze urban renewal.

This Is What We Do

In July 2013, Detroit filed for bankruptcy—at \$18.5 billion, the largest municipal bankruptcy in the nation's history. (By way of comparison, the previous record holder, Jefferson County, Ala., was for \$4.2 billion.) To enable the city to meet its pension obligations, on which it was already in arrears, Detroit was forced to consider breaking up and selling off one of its cultural crown jewels, the splendid art collection of the Detroit Institute of Arts (DIA, www.dia.org). Unusual for a major art institution, the city owned the entire art collection and the landmark Beaux-Arts building that housed the collection. A small part of the DIA collection—almost 2,800 works—had been purchased with taxpayer dollars during the boom years of Detroit. Appraisers believed a sale of these works could realize anywhere from \$867 million to more than \$2 billion on the auction block.

As the case ground its way through bankruptcy court, a chance meeting took place between U.S. District Judge Gerald Rosen, the federally appointed mediator, and Mariam C. Noland, president of the Community Foundation for Southeast Michigan (www.cfsem.org) in Detroit. Noland asked Rosen how she could be of help. Rosen replied by inviting her to drop by his chambers to discuss an idea: Would Noland be willing to enlist not only her own foundation's board of trustees but also the leaders of other foundations to form a coalition that would hammer out a way to save both the city's art and its pensions by the end of 2014, by then just 15 months away?

The scale and scope of Judge Rosen's request was, quite literally, unprecedented. Yet Noland did not flinch. "This is what we do," she recalls with conviction. "Our board not only had to step up with the largest commitment of money we've ever made but to also play this key organizational role. But [Judge Rosen's proposal] made sense. That's the business we're in."

The Power of Collective Logistical Prowess

Noland immediately began cold-calling foundation presidents, board chairs and trustees in Michigan and around the country to line up support. A dozen foundation leaders and officials from the Jewish Federation of Metropolitan Detroit came to meet with Rosen and his mediation team, finance and tax consultant and others. Among those attending were Darren Walker, president of the Ford Foundation (www.fordfoundation.org) in New York City; Bill White, chairman and CEO of the Flint, Mich.-based Charles Stewart Mott Foundation (www.mott.org); and Alberto Ibarguén, president and CEO of the John S. and James L. Knight Foundation (<http://knightfoundation.org>) in Miami. Rip Rapson, president and CEO of The Kresge Foundation (www.kresge.org) in Troy, Mich., who was unable to attend, met privately with Rosen for a four-hour dinner prior to the group meeting to help work out details of the presentation to the group.

What followed were weeks of intense, behind-the-scenes work, and, in the end, the Ford Foundation pledged \$125 million. The other foundations also stepped up and made commitments for a total of \$366 million over 20 years. "The case that we made was not so much about saving the art, which was important, but about saving Detroit," Noland says. "That's where we could connect with foundations, regardless of their programmatic mission."

In order to manage the undertaking over the years, the Foundation for Detroit's Future (<https://cfsem.org/foundation/foundation-for-detroits-future>) was established as a supporting organization of the Community Foundation for Southeast Michigan. Its role is to coordinate the foundation funding to the city and to monitor the city's ongoing compliance with grant conditions. The foundation money will be used to help provide the city a total of \$816 million to fund the city pension plans. In addition to the foundation funding, commitments were secured from the state of Michigan (\$350 million) and by the Detroit Institute of Arts and its many donors (\$100 million). (In January, the DIA announced that, thanks to the generosity of corporations, foundations and individuals, it had raised enough money to satisfy its \$100 million commitment to the grand bargain that was part of Detroit's bankruptcy settlement.)

As part of the arrangement, the city transferred ownership of the entire DIA collection and facilities to the non-profit bearing the same name as the museum, the Detroit Institute of Arts Inc., which had managed the museum and collection on behalf of the city prior to the bankruptcy.

This plan, dubbed the "grand bargain," allowed Detroit to emerge from bankruptcy ahead of the court's Dec. 31,

2014, deadline. In so doing, the city of Detroit has the opportunity to regain its fiscal stability and a bright future.

While the results are a testament to the ability of foundations to build broad coalitions to solve challenging civic problems, it was the collective logistical prowess of the foundation partners working feverishly behind the scenes that made it possible to reach that goal in record time. To take just one example, the foundations shared staff on various committees to divide the administrative duties among themselves while making sure that all the foundations were kept informed of one another's activities. This allowed everyone to get messages out quickly and with a single, consistent message. "The amount of trust that everybody exhibited in order to make this work was critical," says Robin D. Ferriby, vice president for philanthropic services at the Community Foundation for Southeast Michigan and chair of the legal committee for the foundations. "If any one party had gone off in a different direction, everything could have

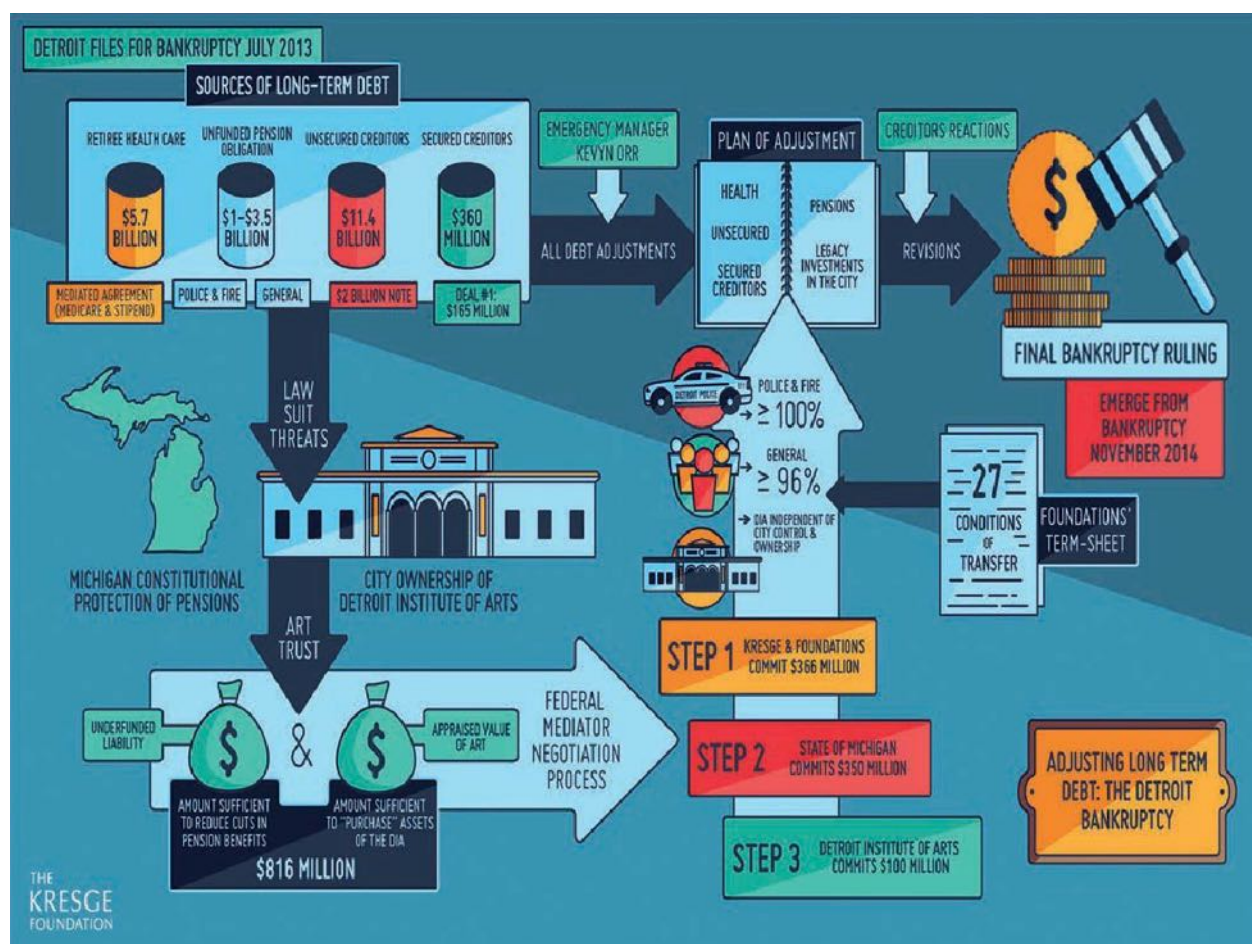
started to unravel," he says. "We were literally making up documents that had never been drafted before."

Ferriby adds that, circumstances and scale notwithstanding, the grand bargain is a casebook example of what foundations can accomplish in their communities. "We should remember that we can create this sort of collaboration without the necessity of a court proceeding," he points out.

Noland agrees. "The precedent of this transaction is the collaboration among all the participants and the power of mediation," she says. "We don't need a court order. We just need trust in one another."

An Innovative Moment

To be sure, Detroit is not out of the financial woods, but the grand bargain has certainly marked a psychological turning point for the city. Here, too, public and private partnerships are making a difference. "This is one of the most innovative moments in philanthropic history,"



Source: The Kresge Foundation. Reprinted with permission.

says Ryan Friedrichs, the city's recently appointed chief development officer. "Philanthropy is willing to experiment, to be catalytic, to innovate and collaborate to build momentum. This is the moment for public-private partnerships."

A key focus for Friedrichs is to help neighborhoods rebuild by cleaning up blight, improving civic services and public safety, projects that public-private partnerships (PPPs) are working on right now. These efforts are both stabilizing neighborhoods for existing Detroiters as well as beginning to entice young professionals and families to move into the city, which will bring new businesses and commercial development.

Friedrichs believes that a resurgent Detroit will be well-positioned to take advantage of the growing trend among Millennials to seek out vibrant urban cultures in which to live. "There's definitely a sense of cooperation and innovation in both the business and philanthropic sectors that's pretty special," says Friedrichs of the PPPs that have blossomed from the seeds of the grand bargain. "People are seizing this moment of opportunity."

Laura Trudeau, managing director of Detroit and community development programs for The Kresge Foundation, agrees that Detroit is poised for a comeback fueled by increased community engagement. "I see a whole level of innovation and creativity around the problems of Detroit that I haven't seen before," she says. "People have come through the fire and are ready to move on with new, innovative solutions. We have a collective focus now, a focus on inclusive recovery."


Trudeau points out that The Kresge Foundation already had a long history of investment in Detroit's communities prior to the creation of the Foundation for Detroit's Future. (Kresge's contribution, \$100 million, was the second-largest from a single foundation, after the Ford Foundation. Together, the Ford and Kresge contributions amounted to slightly more than 60 percent of the \$366 million from foundations.) The Kresge Foundation's Detroit Program is its flagship community development effort, "aspir[ing] to change the city of Detroit's trajectory to one of long-term economic opportunity that advances social equity, promotes cultural expression and re-establishes our hometown as the center of a vibrant region," according to the Kresge website. One of the program's recent initiatives, Kresge Innovative Projects: Detroit, is providing \$5 million in planning and implementation grants over three years to support neighborhood revitalization initiatives throughout the city.

A Well-Suited Role

Thanks to the efforts of foundations, Detroit is now healthier than it has been in decades, but Trudeau says

that the next frontier for foundations like hers is to help cities better address future planning and investment. "The social and physical fabric of cities has been damaged over the past 60 years," she explains. "We need to help cities develop a resilience and elasticity, to not be so fixed that we have to rebuild to such a great extent every time there's an economic shock."

Foundations can bring both high-level vision and ground-level experience to help cities develop those capabilities, and it is a role for which they are well-suited, Trudeau believes. "I see an increasing trend of foundations' being willing to put their point of view on the table, to focus on coming together and looking at the problems, the resources and how to assemble and deploy them," she says.

Detroit's restructuring plan is a role model for what foundations can accomplish in the urban communities they serve. "The lesson of the grand bargain is not simply one of foundations intervening in a municipal crisis," Trudeau says. "It's about foundations coming together with all the other sectors that serve the community to solve an intractable problem. Foundations want to be more involved as problem solvers. It's an exciting time." 

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