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# Letter From the President

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The story I am able to share is not a story of defeat, but a message of hope. It is about citizens from all walks of life from all across the city pulling together to find solutions: Detroiters resolved within the course of a single year the largest municipal bankruptcy in United States history. This is a tale of tenacity and audacity that prevented a lost decade of bankruptcy litigation. And it reflects a boldness of philanthropic aspiration.



**That is exactly what the Grand Bargain accomplished – the philanthropic infusion of some \$370 million led directly to what the Detroit Free Press rightly called “a miraculous outcome.”**

The Kresge Foundation's commitment to Detroit is long-standing, deep-rooted and formative to our identity. The investments we have made in this city over the past 90 years are among our greatest sources of pride. The major investments we have made in Detroit in the last decade, in particular, have been integral to the city's hopes of resurgence – hopes cast in grave doubt as the city's financial crisis became more visible and acute over the past three years. Understandably, dozens of communities have asked me to speak about what this might portend for them, and for America's cities overall.<sup>1</sup> In Milwaukee and Boston, Los Angeles and Raleigh, Minneapolis and Denver and others in between, people were concerned that their plight might not really be so different from ours.

I've tried to capture what was unique about Detroit's experience and, more importantly, what lessons might have application far beyond this city's boundaries. If America is to have the cities we deserve in the near future, there is no substitute for a clear-eyed assessment of our challenges, the necessary imagination across numerous sectors for a commensurate response – and the boldness to act.

It goes without saying that the paths leading a city to the doorstep of financial calamity – and there have been a dozen or so since 2008 – vary dramatically and that each city has to travel a unique road to reverse its circumstance.<sup>2</sup> And yet, bankruptcy in this iconic American city stood out not only for being the largest – in terms of both Detroit's size and the scale of its challenges – but also for appearing to be the most intractable.

“Intractable” probably doesn't adequately convey the sense of pessimism and fatalism that attended the Detroit filing: we heard words like impossible, hopeless, irreversible. The numbers alone were jaw dropping. The city's debt was estimated at \$18 billion, and it was projected that within 10 years, about two-thirds of the city's budget would be consumed just by the payment of retiree benefits.

The way back to solvency seemed equally daunting. Reducing pension benefits appeared to violate directly Michigan Constitution protections. The only significant assets potentially available to creditors were held in the art collection of the Detroit Institute of Arts, which had long operated independently of the city but whose assets were formally held on the city's balance sheet. Detroit was between Scylla and Charybdis – impairing pension obligations by 50 or 60 percent would have caused unspeakable hardships for thousands of retirees living on \$20,000 or \$30,000 a year; conducting a fire sale of the DIA's art would have dismantled and disgraced one of the crown jewels of Detroit's cultural patrimony.

Pursuing either option would have embroiled the city in lawsuits that ultimately could be resolved only by the U.S. Supreme Court, leaving the bankruptcy – and the city's future – in a purgatory that would have chilled investment, eroded civic hope and impaired efforts to move forward with the reimagining and rebuilding of the city.<sup>3</sup> Bringing the bankruptcy to a timely and consensual resolution became, therefore, the animating purpose of Foundation for Detroit's Future, also known as the Grand Bargain, in which the foundation community, the state of Michigan and the Detroit Institute of Arts assembled a fund to protect the pensions and safeguard the DIA's collection beyond creditors now and in the future. And that is exactly what the Grand Bargain accomplished – the philanthropic infusion of some \$370 million led directly to what the Detroit Free Press rightly called “a miraculous outcome.”<sup>4</sup>

It is critical to note that this boldness didn't simply emerge out of whole cloth from the extraordinary circumstances of a city on the precipice of economic disintegration, but was rooted in a set of core beliefs that had guided Kresge's behavior, and the behavior of its many partners, for the six or seven years leading to the bankruptcy. Kresge's core beliefs transcend our work in Detroit and shape just as formatively our efforts to improve the bedrock economic, social, cultural and environmental conditions in other American cities. You'll see evidence of that in the sections that follow about our programs in Arts & Culture, Education, Environment, Health and Human Services, and our Social Investment Practice.

In each of these, we work with grantees and partners, pursuing strategic interventions to improve the lives of low-income, underrepresented and disadvantaged children and adults. By creating opportunity, by unleashing the potential of residents, we enable a bold urban future.

1. [https://www.youtube.com/watch?v=jHY1JtG5cE&list=PLQ-KRzRs\\_x91hw563nTQJGDMSB-4dArax&index=1](https://www.youtube.com/watch?v=jHY1JtG5cE&list=PLQ-KRzRs_x91hw563nTQJGDMSB-4dArax&index=1) at 1:07:25 ff.

2. <http://www.governing.com/blogs/by-the-numbers/municipal-bankruptcy-rate-and-state-law-limitations.html>

3. [http://en.wikipedia.org/wiki/Detroit\\_bankruptcy#cite\\_note-nyt-1](http://en.wikipedia.org/wiki/Detroit_bankruptcy#cite_note-nyt-1)

4. <http://www.freep.com/story/news/local/detroit-bankruptcy/2014/11/07/rhodes-bankruptcy-decision/18648093/>

**BELIEF #1: Philanthropy has to be prepared to cut from its safe and secure moorings to embrace a level of risk commensurate with the magnitude of the challenge at hand.**

The enormity of the bankruptcy challenge tore at the outer limits of philanthropy's long-established risk envelope. The stakes were so high and the risks of inaction so great that the practices of the past would simply not get us where Detroit needed to go. We had to tap our corpus for \$100 million – our largest grant ever – and not simply redirect money pre-allocated to rebuilding Detroit's physical, social and cultural fabric. We had to arc to the dream of a city reborn, not simply measure the situation against fine-tuned program priorities. We had to condition our support on fiercely negotiated conditions, not simply create a pool of unrestricted capital. We had to actively lead.

**BELIEF #2: Philanthropy, by shedding its territoriality, can multiply its efficacy by recognizing the potency of its undeniable interdependence.**

The partnership of the Grand Bargain was built on a foundation of mutual support that the philanthropies of Detroit have been building over the last decade. Ten of us collaborating to create the New Economy Initiative, aggregating capital to promote small-business development and entrepreneurialism. The Kresge, Ford and Kellogg foundations underwriting the creation of the Detroit Future City land-use framework. The philanthropic, banking, nonprofit and public sectors meeting monthly to discuss neighborhood priorities in the Detroit Neighborhood Forum. The Knight, Erb, Hudson Webber, McGregor and Kresge foundations investing in the vibrancy of the arts and cultural ecology. And countless other examples.

When, therefore, the question was called of whether philanthropy could pull together to provide the \$366 million necessary to catalyze the Grand Bargain, the answer was clear. The fabric of trust and cooperation was in place. Kresge and Ford stepped forward to commit \$225 million, and the other members of the coalition followed suit at levels appropriate to their size.

**BELIEF #3: Philanthropic leaders must be willing to act; they must create the space to hear and internalize the wisdom of our community's collective voice.**

The greatest heat of the bankruptcy trial was generated by the claims of creditors. But its resolution was equally contingent upon the creation of a “plan of adjustment” that created a road map for the city's long-term growth and economic health. That, in turn, depended on smart and pragmatic strategies to address the deeply complicated, emotionally sensitive and politically charged issue of how to address the fate of the city's vast stretches of vacant, blighted and underutilized land.

In 2011, Mayor Dave Bing's administration asked Kresge to help frame that kind of strategy. It was a process that had to navigate the delicate intersection of highly technical land-use planning and the collective voice of community residents. It was a rocky road. We had to redesign the community-engagement process to find the right set of processes, attitudes and tools. We had to continually renegotiate what roles city government, philanthropy and the community would play in directing and carrying out the work. We had to wrestle with the mind-numbing conceptual and practical complexities of reimagining a city whose population had shrunk from 2 million residents to 725,000.

We stayed the course over four years. What emerged was Detroit Future City, a community-derived road map for jobs, civic health, asset building and stronger neighborhoods across the city. It is more than just a plan; it is a framework that provides a basis for decisions in every dimension of community life – where we might redouble our investments in commercial corridors; invest in new mixed-use residential development; test ideas for urban farming, reforestation or innovative stormwater management. At all points along the way, the ideas and wisdom of residents needed to be folded in. At Kresge, we have committed that every dollar of the more than \$150 million we will invest in Detroit over five years will advance the recommended strategies within this framework and the processes by which community voice can continue to be heard.

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**BELIEF #4: Philanthropy must increasingly become comfortable in engaging the vicissitudes and ambiguities of public-sector policies and practices.**

There is an inherent tension between the accountabilities of elected office and the ostensible remove of philanthropy. As long as philanthropy stays in its "lane" by funding community-based nonprofit activity and by entertaining routine requests from City Hall, the relationship can remain on automatic pilot. But when foundations step inside the fence line of activities traditionally shaped and operated by the public sector, matters can get dicey. The bankruptcy certainly illustrated this. But Kresge's seven-year-long funding and advocacy for the M-1 Rail project casts this in even brighter relief.

Kresge has been the lead investor in, and perhaps most passionate advocate for, the construction of a streetcar line in the heart of Detroit. The line promises to become the first leg of a high-performing regional transit system comprising high-speed rail between Detroit and Chicago, improvements to existing rail and bus connections and state-of-the-art commuter transportation. And even in its early stages of construction, it has demonstrated its power to spur economic growth and social cohesion in the city for many years to come.

The \$170 million streetcar line is anchored by Kresge's \$50 million commitment, but draws on a combination of private, public and other philanthropic support as well. Its journey over the past half-dozen years has drawn Kresge into the lair of federal Department of Transportation policy, Michigan legislative battles and Detroit governance issues. It began with gnarly questions about philanthropy's appropriate role in giving birth to large-scale public works projects and meandered through such issues as Kresge's role as a backstop to potential public-funding shortfalls, our willingness to engage in high-visibility public-policy debates about state legislative priorities and our appetite for staying the course until the line is transferred to a public operating entity.

We should have expected no less when trying to overcome a fraught history of mass transit in the place that put the world on wheels, one car at a time. But it has required that we lock arms with public entities in ways that have suggested that the boundaries separating the public, private and philanthropic sectors are far more porous than they may appear. We look forward to celebrating with the public and friends from all those sectors when M-1, which began construction in summer 2014, opens in late 2016.

**BELIEF #5: Philanthropy can find key acupuncture points that trigger the power of places to reflect community identity and create the map for vibrant, equitable civic life.**

The stabilization of Detroit in the post-bankruptcy era, as noted above, will require audacious actions that convert underutilized, even socially and environmentally toxic, land into a network of civic spaces conducive to community health, economic vitality and positive social interaction.

Kresge has a long history of investing in public spaces. It's more than just enhancing a location. It's about creating an essence – identifying, elevating or assembling a collection of visual, cultural, social and environmental qualities that imbue a location with meaning and significance. When we're able to connect to a city or a neighborhood through an individual or shared experience of its public spaces, there's a magnetic pull. You want to stay committed. You want to invest. You want to build a future. These are the preconditions for civic transformation.

Kresge's signal investment of this kind is the \$50 million we put on the table more than a decade ago to challenge others to join in creating the Detroit Riverwalk, which now draws millions of residents and visitors each year. But we have also been proud to participate in transformative investments that have accelerated the pace and scale of development in the downtown and Midtown districts – the economic backbone of the city. And we have begun to ramp up dramatically investments intended to migrate some of the lessons we've learned from downtown and Midtown to neighborhood corridors – from Livernois-McNichols to the East Jefferson corridor, from the North End to Southwest Detroit.

**BELIEF #6: There is a moral imperative for privately endowed philanthropies like Kresge to stitch together the other beliefs in ways that will improve outcomes for low-income people living in America's cities.**

When all was said and done, the bankruptcy was about improving the life circumstances of the people of the city of Detroit. It presented a set of challenges and opportunities emblematic of other communities facing disinvestment, polarized structures of economic opportunity and racial division.

Cities present a density of activities, skills and ideas that serendipitously or intentionally circulate, recombine and catalyze, creating the preconditions for innovation. Their complex networks and diverse subcultures are more conducive to the dismantling of stale and unproductive approaches to stubbornly resistant problems in favor of the new or imaginatively recycled.

Detroit has begun to suggest a recipe for animating those qualities. Its experiences suggest that it is possible to absorb the stresses of change while retaining a community's essential identity, to reinvent essential functions without sacrificing the primacy of resident voice, to explore new principles of civic sustainability without dismantling the richness of community traditions, beliefs and institutions built up layer by layer over time.

**You start from the ground up.** Every neighborhood, each community, all the block clubs, all the schools, each of the businesses, all the informal networks of mutual support help form identity, contribute to innovation and ignite sparks of hope for a better future.

That is the import of our investments through the Kresge Innovative Projects: Detroit program, a three-year, \$5 million commitment we launched in early 2015 to tap the hunger and capacity of community-based nonprofits for neighborhood-level transformations. Through funding for 18 neighborhood efforts spread throughout the city, we sought to quickly light up the map of Detroit with the reality of positive change. An expansion of an iconic neighborhood park. The transformation of a transit corridor into a greenway with solar lighting. The renovation of a boxing gym to enable the expansion of youth mentoring programs. All tied to the framework of the Detroit Future City plan and all rooted in the powerful granularity of resident creativity.

Who knew that Shakespeare had Detroit in mind when he wrote in "The Tempest," "What's past is prologue." With debt loads recalibrated, creditor claims satisfied and structural deficits eliminated, Detroit is ready for the next act. We can contemplate how best to invest collectively in our future. We can set to work on changing the trajectory of civic ambition. We can amplify the patterns of engaged and effective partnership that we have begun to build among residents, businesses, the public sector at all levels, nonprofit organizations and philanthropy.

There is resonance in these lessons for so many American cities. We all seek to understand whether, and how, it is possible for post-industrial America to chart a course of inclusive, balanced economic recovery and social opportunity. We all are recalibrating civic roles in an era of federal retrenchment and state and municipal austerity. We all strive to crack open calcified and unproductive orthodoxies in favor of problem solving that tests assumptions, utilizes both empirical and qualitative data and invests in the infrastructure necessary to the task.

The future of America's cities depends on policies and practices of a higher order. They need to be forged with an attitude of objectivity, an openness to new and different perspectives, an ability to step outside of one's immediate experience, a fundamental respect for the process of unbridled civic discourse.

Detroit doesn't have all the answers – each community will necessarily construct a playbook based on its unique history, culture and capacities. But the day has come and gone when Detroit was easily dismissed as America's emblematic problem child. It is indeed a new day in Detroit, so stay tuned.

**I invite you to share the booklet attached above. And please stay in touch; I'm interested in your thoughts and suggestions as we work toward this future together.**