

Nonprofit and Loss

BY LAURA B. ROBERTS

MUSEUMS FACE A CRISIS OF PUBLIC CONFIDENCE. THEY, ALONG WITH UNIVERSITIES, HOSPITALS, schools, and religious organizations, have enjoyed the traditional protection and social support granted the nonprofit sector: exemption from taxes and indirect government subsidy through tax deductions. In recent years, however, our tax status has been questioned at every level. The proximate cause is clear: governments are desperate for cash. But the more fundamental question is: Why have they turned their attention to us?

Tax-exempt status is granted to those organizations willing to do the tasks that, quite frankly, no one else will take on: needs that won't be met by profit-making firms but which are not so critical that the public sector will meet them. This status has traditionally carried with it the assumption that these organizations will *only* exist with exempt status. With this comes an obligation to the community that grants this status. While not everyone in the community is a direct constituent of the nonprofits, they are all indirect donors because the taxes forgone from these organizations and their direct donors affect everyone in the community. These unwitting (and perhaps unwilling) donors expect something in return.

We, not the government, have changed our behavior and caused the underlying premise of protected status to be questioned. Not only have we found some market niches, but profit-making enterprises have discovered that our traditional tasks might, in fact, be profitable. Simultaneously, several well-publicized scandals have challenged the presumption of honor which came with a life devoted to good work. Our reputations might be more resilient if we had been upholding the other end of our arrangement: our commitment to public service. Instead, our good intentions notwithstanding, we have moved further from our communities rather than closer to them.

Even our strongest allies in Congress mutter that full deductibility of appreciated property only benefits the wealthy. States have debated taxes on endowment, admission, and membership income. Municipalities are, in some cases, politely asking for Payments in Lieu of Taxes (PILOT) and, in others, actually preparing tax bills. Berkeley, Calif., for example, began enforcing a licensing fee of 60 cents per \$1,000 of contributed income on its 600 nonprofits last summer.

The way out of this dilemma is difficult to chart. We had no choice but to embrace the financial realities and the values of the 1980s, but we cannot return to relying either on private support or on public subsidies. Our "diversified income strategies" were sound fiscal management, but we have to confront the consequences and correct some mistakes.

Tax theorists say that we need to use the tax code to encourage the provision of those services that would not be provided in sufficient quantity if left to the market. However, for-profits have moved into areas previously reserved for nonprofits, and seem to need no special treatment. If a corporation can provide the same services we provide and be profitable, why subsidize inefficient nonprofit solutions?

While there are few examples of companies running museums at a profit, the general public may be less strict in how they compare us and commercial competitors. Silver Screen Partners recently considered building a facility to house the objects from the pirate ship *Wydah* at the Charlestown (Mass.) Navy Yard, a venture the public thought of as a "museum." The presence of a real, dramatic story and valuable collection certainly contributed to that perception. The facility (which will be built in Florida) will, in fact, be a theme park. But will the public see that? Probably not, and some will no doubt think: "If only more museums were this exciting." Tennessee businessman Chris Whittle proposes profit-making elementary schools, hospitals

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are acquired by corporations, and state and local governments are contracting prison management to private firms. If all of them can make these ventures run at a profit, why can't we?

The arguments against this reasoning are obvious to us. Theme parks don't educate, nor do they conduct the research and collections-care functions expected of museums. Channel 1, Whittle's other project, has seriously compromised educational integrity in exchange for commercial underwriting. For-profit hospitals don't treat the poor or uninsured. And privatization often means a serious reduction in quality of service. But does the general public understand and value these differences? And are the differences real?

At the same time that commercial enterprises are moving onto our turf, nonprofits have become more entrepreneurial, venturing into areas previously reserved for the private sector. In doing so, we've blurred the identity of nonprofits and, at the extreme, put ourselves in outright competition with for-profits. While we can argue that we have had little choice, we must also consider the way this changes our image. The mail brings museum-store catalogues indistinguishable from Horchow or Gump's, solicitations for travel programs identical to those promoted by travel agents, and invitations to corporate parties and weddings at local museums. We can be congratulated for our resourcefulness, but should not be surprised if we appear to be transformed into profitable enterprises.

This January, Boston legislators proposed a tax of one half of 1 percent on the property of universities and hospitals. In supporting the tax, the city council president said: "They've had it too good for too long. If they're bringing in money, they should pay their fair share." The council cited cosmetic surgery at major hospitals, law school professors working on cases for celebrity clients from their tax exempt offices, and generously financed drug development projects as evidence that these institutions are quite able to pay.

Unfair competition is another common theme, provoking debates on unrelated business income tax reform and a host of local skirmishes. One Massachusetts community vehemently opposed a museum gift shop, complaining that it would compete with the stores on Main Street. That fight settled, the local merchants then tried to block permission for food service on the site. The for-profit Museum Company took on the Art Institute of Chicago when the AIC opened a shop in a suburban mall. "It is a travesty for museums to use taxpayer money to build retail stores in the suburbs," claimed Floyd Hall, the Museum Company chair. In Boston, the Shubert Theater is finding it hard to compete with the nonprofit Wang Center. Rather than admit that its smaller hall limits income while old union contracts increase costs, the Shubert points to the Wang's "favorable tax treatment" as the reason for its success.

Another trend is more subtle. Museums and cultural centers have become an important component in economic development, often making a major contribution to the revitalization of urban areas. They bring visitors to the area and make it a more desirable place to live, work, and shop. However, when business and political leaders include museums in their development plans because of their direct economic contribution, the argument shifts. The Massachusetts Museum of Contemporary Art (MassMoCA) is intended to revitalize North Adams, a depressed manufacturing city with acres of abandoned buildings. MassMoCA is, first and foremost, a venture in economic development. No one in the State House really cares about contemporary art: they need to create jobs and generate income. If some artistic goals get realized along the way, that's a bonus. Developments like this reposition museums in the minds of business and political leaders. Museums don't add to the quality of life; they contribute to the quantity of trade.

Our somewhat muddled relationship with the private sector aside, why are people ready to send tax bills to sacred institutions of learning, charity, and health? In part, scandals and other embarrassing revelations about nonprofits have diminished our credibility and prestige. Employees of nonprofits were assumed to be good, hardworking people, who labored for love rather than a generous paycheck. But when priests are on trial for abuse, college professors and judges are accused of harassment, scientists admit to fudging research results, heads of charities fly first class, and artists produce "smut," can our reputations be truly secure? In fact, while museums have been spared major scandals, there have been enough small incidents to weaken our credibility. Who among us wasn't asked to justify the actions of our colleagues during the Mapplethorpe brouhaha?

The cynicism goes beyond personalities to institutions. In the last year, the *Boston Globe* has turned its investigative spotlight on one public institution after another: the Christian Science Church, Boston University, the Museum of Fine Arts. All have been accused of financial mismanagement approaching the irresponsible if not the unethical. "Big Wigs, Shallow Pockets at the MFA," read one headline, reporting that overseer John Axelrod "broke the code of

silence that rules the city's inner sanctums." At the MFA annual meeting last October he challenged the board president: "I have no confidence in the board because they have been fiddling while the museum has been burning." The assembled clippings could serve as a business-school case on fiduciary irresponsibility. It should come as no surprise if the public becomes skeptical of our ethics.

The other reason we are vulnerable is that we have failed in our obligations to be community assets. Certainly, people continue to visit and seem to value the experience. But have we really developed new audiences or become important to the majority of Americans?

In *The New Yorker*, October 5, 1992, Adam Gopnick sketched the "Death of an Audience" for New York's museums. People may come for the events and to say they have seen an important show, but they don't truly like or understand the increasingly arcane and unapproachable, "intensely puritanical and aggressively anti-hedonistic art" championed by an in-group of art professionals, he argued. Not that the problem is limited to art. In an unguarded moment, a staff member at a children's museum recently admitted that while their topical, controversial exhibits have gotten the institution professional notice, visitors are disappointed because the museum is no longer fun. In countless historic houses, new interpretations turn attention away from the one notable, generally white male occupant, and toward the women, children, and servants who also lived there. The new social history, with its emphasis on everyday life, seems so compelling to professionals, but they find that many visitors want to hear about the extraordinary, the famous, the important.

The time and attention museums have devoted to cultural diversity has been sincere. But progress is still unconscionably slow. In a recent survey, the New England Museum Association asked about the racial makeup of board and staff. Region wide, 100 percent Caucasian was the overwhelming response. Another question asked members to indicate

their interest in workshops on various aspects of diversification. The degree of interest was directly related to how close the target was to the core of the institution and how permanent the change. Audience and program, therefore, attracted great interest but boards, staff, and collections little. If our institutions were judged as harshly as President Clinton's cabinet, none of us could claim we look like America. Until we are reflective of our communities and their priorities, few will care about our well-being. No one will publicly defend an institution that has remained unresponsive and segregated.

Museums have gone so far in the search for a balanced budget that we have priced ourselves beyond the means of all but the wealthiest. Outdoor living history museums in New England charge between \$15 and \$20 for adults. Free hours have shifted from evenings and weekends to weekday afternoons: great for students and senior citizens but not convenient for working families. Recently, a Cambodian refugee detailed what it would cost to bring his family to a Boston museum. Families are large in his community, he explained, and few people have cars. Train, subway, and museum admissions for a family of eight could easily total \$100. How many of our staff members could afford that kind of weekend excursion? More of us should emulate the Mystic Marinelife Aquarium, which gave free memberships to families of people who lost their jobs. In the 1980s we learned "people value what they pay for," but if they can't afford it, they don't care what its value is.

What's the answer? The era of private philanthropy sufficient to meet our needs without raising these uncomfortable challenges is long gone. Nor can we productively pine for the 1960s and '70s when public sector funding took over. Even if the will were there, our governments just can't afford it. No, we need a new solution, appropriate for the economics and ethics of the 1990s.

If we are to remain in close competition with the for-profit world, we need to learn to compete on a level playing field. If we are in business,

we need to be business-like in our operations. If we're collecting hefty rental fees for our facilities, we should be able to afford the same taxes as the local hotel. If we can't, we need to assess why and become more efficient and competitive.

On the other hand, we need to clarify and rearticulate the ways we remain different from our commercial competitors, which means a reaffirmation of our commitments to activities that are not supported by the marketplace. It may seem counterintuitive, but we have to give full weight to the functions that will never pay for themselves but which distinguish us from commercial ventures: preservation and scholarship.

We must also work to restore public confidence and support by improving the operations of our fiduciary boards, making progress on diversity, adhering to the highest ethical standards, and giving back to the community. The best way to avoid bad publicity is to eschew the behaviors that generate it.

Finally, we need to educate decision makers (politicians, donors, business leaders) and those who influence them (media) about the real value of the contributions of the cultural community and the operating and fiscal constraints of public institutions. In recent years, reporters have asked the New England Museum Association why museums can't just rent the building every night to generate income or invest the endowment in money market funds (when they returned 10 percent) or sell some paintings. When we do behave ethically and responsibly, we need to help others understand the wisdom of our actions.

Even if we manage to lobby successfully for changes in appreciated property tax, hold off changes in UBIT, successfully fight every request for PILOT, defeat every tax on admissions, memberships, and endowment, we could still lose the war if we haven't reestablished the principle that there is a place for a third sector, alongside the public and the private, one that needs and deserves public support and where people of good faith are working to create better, stronger communities. ■