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Pioneering Proposal: Kalamazoo Becomes ‘Laboratory’ for Philanthropy-Backed Municipal Finance.

KALAMAZOO — About a year ago, William Johnston and Bill Parfet, two local businessmen with long-time connections to Southwest Michigan, approached the city of Kalamazoo with a potentially transformational proposal.

If the city created a nonprofit foundation, they committed to give a lead gift of more than \$70 million and pledged to help raise upwards of \$500 million by 2019 that the city could use to fund operations and supplement its normal sources of revenue.

In signing the articles of incorporation for the Kalamazoo Foundation for Excellence on Aug. 23, the city unlocked a funding mechanism that it will use to address generational poverty in Southwest Michigan’s largest city. But aside from that lofty goal, the foundation funding will also have a more direct, tangible benefit for taxpayers: Immediately, the city plans to cut its property taxes nearly in half, using the foundation to make up the difference so it can pay for basic municipal services.

It’s an unprecedented model — and far beyond the one-time donation Mayor Bobby Hopewell initially requested — but the structure of the funding has also drawn its share of critics, including within the ranks of the Kalamazoo City Commission. Still, if the foundation funding model proves to be successful in the coming years, it’s sure to serve as an example for other cash-strapped cities around the country, according to Michelle Miller-Adams, a research fellow at the Kalamazoo-based W.E. Upjohn Institute for Employment Research.

“Other communities do have philanthropists and they make choices all the time about how they spend their money,” Miller-Adams said. “Once they find out that this Foundation for Excellence transforms the community (and) reduces poverty, philanthropists in other communities may look and say, ‘build an arena, or put money into the city budget?’ We’re kind of a laboratory for some extreme generosity approaches to urban governance. It’s pretty interesting to watch.”

Sources contacted for this report largely agreed that the Foundation for Excellence has the potential to pay significant dividends for the city of Kalamazoo, particularly when combined with the Kalamazoo Promise, the anonymously endowed foundation that offers free tuition to any graduate of Kalamazoo Public Schools who attends one of Michigan’s public universities.

According to Kalamazoo City Manager, the creation of the Foundation for Excellence allows the city to solve multiple problems, including tackling complex societal issues such as poverty and access to housing, as well as to lower its property tax rate to a level that’s competitive with many surrounding municipalities. What’s more, the city gets to do it without having to implement an income tax, as officials had long discussed, he said.

The foundation also sends a powerful message to the private sector that might consider investing in Kalamazoo, Ritsema said.

“We’re competitive and we’ll remain competitive,” he said. “We have so much to offer beyond taxes.

We have a community that works on social issues.”

For some local critics, the merging of municipal finance and philanthropy poses its share of concerns.

“I’m very hopeful it works out for Kalamazoo, but honestly, in the generic sense, it’s really not a direction anyone should be going toward,” City Commissioner Matt Milcarek told MiBiz.

Milcarek was one of two commission members to vote against incorporating the foundation.

“I think we already have some pretty blurred lines (around) wealthy control over government,” he said. “If it works in Kalamazoo, it’s going to work because of the benevolence of our particular donors. But to sort of promote a governmental finance system that relies on billionaires being benevolent is really a dangerous model to replicate.”

‘A TEST,’ OF SORTS

In providing the lead donation, philanthropists Johnston and Parfet saw an opportunity to support a city where they have considerable financial and family roots.

“(T)he Donors are concerned with the long term viability of the City of Kalamazoo and its ability to meet only the basic needs of its residents but also its inability to invest in efforts to help create a dynamic and growing city,” the two wrote in a Statement of Donor Intent last month.

Attempts to reach both Johnston and Parfet for comment were unsuccessful at the time this report went to press. Their avoidance of the spotlight comes as no surprise, said Miller-Adams, who believes the two businessmen would have preferred to fund the foundation anonymously. That the donations went to a public entity likely made preserving their anonymity challenging from a legal perspective, she said.

Johnston, the chairman of Greenleaf Companies, is married to Ronda Stryker, a scion of the Stryker Corp., a medical device manufacturer where she serves as a board member. Parfet, meanwhile, is an heir to pharmaceutical maker Upjohn Co.

Parfet, who founded MPI Research Inc., also served on the board of Stryker Corp., but resigned last year after becoming embroiled in a sexual harassment lawsuit involving a former employee. That case was settled out of court last week, according to a docket report for the U.S. District Court for the Northern District of California.

Both families hold considerable business interests in Southwest Michigan, meaning that if the foundation proves attractive for economic development, they could see financial benefit, according to sources contacted for this report.

Rob Collier, president and CEO of the Grand Haven-based Council of Michigan Foundations, noted that tax advantages often serve as a driver for philanthropic giving, but are not the primary reasons behind it.

It’s common for philanthropic donors to seek some sort of return from giving, said Miller-Adams, adding that Johnston and Parfet have shown no interest in micromanaging the foundation.

“The preferences of powerful, wealthy citizens are always there. Things like the Western Michigan University medical school don’t happen without those in power,” said Miller-Adams, referring to the Stryker/Johnston family providing the lead \$100 million gift for the Homer Stryker M.D. School of

Medicine.

Nationwide, foundations and philanthropic ventures have long supported municipalities in various narrow capacities. Several sources cited organizations such as The Kresge Foundation and The Ford Foundation, which played key roles in helping engineer the so-called “grand bargain” that protected the artwork in the Detroit Institute of Arts and allowed Detroit to emerge from bankruptcy in 2014. However, there’s no precedent for a foundation stepping in to fund operations at the scope that could happen in Kalamazoo.

“I do think this is unique, innovative and in some ways a test,” said Carrie Pickett-Erway, president and CEO of the Kalamazoo Community Foundation. “Communities need to be reinventing themselves these days in a lot of ways. Figuring out the funding structure to make communities vibrant, that’s a big challenge. I do think the taxing structures that exist today are making it really hard for cities, counties and others to really be the community they want to be. I think we need to be innovative and creative and try something.”

Pickett-Erway said her organization likely will be involved in engaging community members to sit on the 15-person board for the Foundation for Excellence, as well as potentially in helping to manage the endowment.

IDENTIFYING PARTNERS

Under the terms of an agreement with Parfet and Johnston, the city of Kalamazoo will get an initial \$70.3 million over the next three years as initial funding for the Foundation for Excellence. The funding will allow the city to stabilize its budget and lower the property tax rate from 19.2705 mills to 12 mills, according to public documents. The city will also use \$10 million of the initial donation to fund community projects over the three-year period, starting in 2017. Those projects will largely come about as part of the ongoing implementation of the Imagine Kalamazoo 2025 master planning process.

That money comes with “no strings attached,” meaning the donors have no say over how the city spends it. At the same time, the philanthropists plan to raise a permanent fund of around \$500 million from unspecified donors, including corporations, individuals and private foundations.

The nature of the funding continues to pose concerns for Commissioner Milcarek, who said he’d prefer the city implement an income tax rather than go the philanthropic route.

Milcarek’s specific concern lies in the influence that donors to the fund could in theory exert over how it’s spent, leaving insufficient funding for operations or basic services.

Kalamazoo City Attorney Clyde Robinson cited that scenario in a memo to the commission, noting the foundation’s 15-member board should decide how to deal with restricted funds versus adding various stipulations to the group’s bylaws.

“Rather than tie the hands of the FFE Board with language in the Articles or Bylaws precluding the acceptance of restricted gifts, some of which may be acceptable and consistent with the FFE purposes, this issue is best left to the FFE Board to craft a gift acceptance policy that can be reviewed and modified as circumstances dictate,” Robinson wrote in the memo.

While critics likely will continue raising questions about the creation of a foundation to fund municipal operation, others see the merging of philanthropy and local government as a natural step, particularly given their shared goals of addressing social issues.

“We see cities with this overall set of objectives that they’re trying to accomplish,” said Chris Fabian, co-founder Denver-based municipal consulting firm ResourceX.

The firm worked with Kalamazoo for the last three years to identify community priorities and to align budgets based on those priorities.

“We encourage cities (to understand) that they can’t be everything to everybody,” he said. “That’s the hardest thing. We encourage cities to find partners that can provide services ... and accomplish similar goals. So long as the city is assured that the goals they’re trying to achieve with this foundation money are congruent — in alignment — with the (community’s goals), then it’s all good.”

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