# Detroit's Grand Bargain

## Philanthropy as a Catalyst for a Brighter Future

Irene Hirano Inouye
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We want to acknowledge the assistance of Michael Thom, and the insights and perspectives offered by the individuals interviewed for this case. Listed at the end of the case, they included many of the principals involved in the Grand Bargain.

An electronic copy of the case can be downloaded on The Center's website at cppp.usc.edu.

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A CASE STUDY OF
THE IRENE HIRANO INOUYE PHILANTHROPIC LEADERSHIP FUND

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## PREFACE

Bold philanthropic leadership is critical to addressing community problems. Yet, foundations can only chart such a course if there is shared governance between foundation boards and their executives. To this end, The USC Center on Philanthropy & Public Policy launched a fund to support research and programs to explore foundation leadership as it solves society's most pressing problems. It is named in honor of Irene Hirano Inouye for her exemplary leadership and success in building effective foundation boards. Hirano Inouye, president of the U.S.-Japan Council, served as board chair of both the Ford Foundation and The Kresge Foundation.

The Irene Hirano Inouye Philanthropic Leadership Fund elevates and amplifies the role of philanthropic leadership in strategies for scaling impact, bringing greater attention to the issues of shared governance between boards and executives in foundations, including effective board practices, through the development of cases that can stimulate conversations with foundation trustees and executives.

In that spirit, this case describes the story of Detroit as it teetered on the brink of financial collapse in 2013, and the uncommon role that philanthropy played in resolving the crisis. The case examines how philanthropy catalyzed a brighter future for Detroit and the bold leadership that was required to do so, offering lessons and a set of discussion questions to stimulate conversations among foundation boards and executives.

## EXECUTIVE SUMMARY

When Detroit went into bankruptcy on July 18, 2013, many observers thought that the troubled rust belt city was on the ropes, and in for years of litigation. Yet it emerged from bankruptcy in less than 16 months, its claims settled. In large part, that achievement was due to an unprecedented and extraordinary collaborative philanthropic effort.

This case first describes the circumstances that led to Detroit's bankruptcy. It discusses how emergency manager Kevyn Orr, appointed by Michigan Governor Rick Snyder, came to understand that there was no other way than bankruptcy for Detroit to settle its obligations, reduce blight, restore services, and open a viable path towards revitalization. Then it chronicles the events that followed as a group of foundations led the State of Michigan, the Detroit Institute of Arts (DIA), and the city's pensioners to craft the Grand Bargain, the complex set of agreements and commitments that raised $820 million in "new money" to settle the claims of the city's pensioners. The Grand Bargain was the lynchpin in creating a path to resolve Detroit's financial crisis and putting the city on a sustainable course towards recovery.

In brief: U.S. Chief District Judge Gerald Rosen, appointed to mediate creditors' claims by U.S. Bankruptcy Judge Steven Rhodes, initially approached a diverse group of foundation leaders with an eye towards raising money to leverage the city's one significant asset: the DIA's art collection. The city pensioners and private sector creditors believed that their claims could be fully settled by selling or otherwise monetizing the art. However, DIA supporters and many in the community, including Rosen, were loath to dismantle the museum. The DIA, a symbolic touch-point for the city's rich legacy, anchors the city's central Woodward Corridor, which was already on a fragile path towards revitalization. Without the DIA, Detroit's comeback would be severely hampered.

Rosen's idea centered on creating an "art trust." Even as he spoke to the foundation leaders, however, he realized that his argument for enlisting philanthropy's involvement was slightly off point. Many of the foundations did not fund the arts, and none of them provided support to pensioners. His focus shifted to argue that what was needed was an investment in Detroit's future. Critically, his audience then saw that the proposal before them, if not fully formed, nonetheless presented an opportunity they could not ignore.

The foundations recognized that the consequences of leaving the adjudication of the bankruptcy to litigation would have created uncertainty, exacerbating the crisis and leaving no way out in sight. And they understood that those circumstances would have undermined the good work in Detroit that they had done in the past, and set them up to struggle to regain lost ground in the future. Thus, they came to share a common vision and commitment for the future of the city, each finding their own way to see that their involvement in a "Grand Bargain" was integral to their goals, even if supporting the city in such a way was not articulated in their mission statement or specified in their strategies.

In that spirit, they agreed to put up $370 million towards settling the pensioners' claims – the largest share of the city's outstanding obligations. Rosen was then able to leverage philanthropy's commitment to get the State of Michigan to put up $350 million for the same purpose. And subsequently, the Governor pressed the DIA to commit $100 million to the effort, winning its independence from the city in the process.

With $820 million in "new money," Rosen and his team successfully mediated the settlement of the pensioners' claims. This action pressured the city's private sector creditors to settle their claims through mediation rather than litigation. And on November 7, 2014, with Judge Rhodes ruling that the settlements fairly served the interests of all of the creditors, Detroit emerged from bankruptcy with real prospects for a brighter future.

The world of philanthropy can take a great many lessons from the Grand Bargain, but the most important is perhaps that philanthropy is well positioned to exert bold leadership in solving critical public problems, even if such a role is not natural, if it is willing to move outside its comfort zone and take risks.

In fact, with a willingness to engage in adaptive and distributed leadership, philanthropy can stimulate purposeful action – adapting to circumstances on the ground, and engaging leaders from all quarters. Philanthropy may in fact be the best-suited actor for this role, given the web of relationships and networks that foundations develop over time in the communities they support. Its position as a community anchor makes it possible to help develop, especially in times of crisis, a narrative that encourages stakeholders in all sectors to come together to create a better future. And in doing so, as the catalysts of the Grand Bargain can attest, philanthropy can leverage its ability to take a long view and respond quickly to unexpected challenges to great and even unprecedented effect.

Detroit Industry Mural, River Court, Detorit Institute of Arts. Diego Rivera. 1933.

# Detroit's Grand Bargain

Philanthropy played an extraordinary role in the creation of the "Grand Bargain" that resolved Detroit's bankruptcy. The ability of the foundations involved in the effort to work collaboratively, think creatively, extend themselves beyond their comfort zones, and share leadership responsibilities, was unprecedented.

It's unlikely that such a response could ever be replicated – but then it is also unlikely that a set of circumstances such as the ones that characterized Detroit's bankruptcy will recur. That's why this case is not intended to be a blueprint for action, but rather a springboard for thinking about the potential and possibility of future creative, collaborative, unconventional philanthropic efforts. By documenting Detroit's bankruptcy and the catalytic role philanthropy played in the Grand Bargain, we hope to encourage foundation boards and their executives to use this case as a new lens through which to consider their own work and the contexts in which they operate. What crises might philanthropy be able to resolve if it embraces and engages in the kinds of forward-thinking mindsets and behaviors demonstrated by the Grand Bargain's creators? What crises might it be able to prevent?

## OVERVIEW

The City of Detroit filed for bankruptcy on July 18, 2013 under Chapter 9 of the U.S. Bankruptcy Code with over $18 billion in debt and unfunded pension and benefit obligations. It was the largest municipal bankruptcy in U.S. history. But the event didn't come as a shock to anyone familiar with Detroit. It was just the latest episode in the decades-long spiraling decline of an iconic American city, linked to the receding dominance of the auto industry and U.S. manufacturing.

In an earlier era, Detroit's manufacturing core had made it "America's arsenal of democracy."[1] But globalization and deindustrialization put enormous stress on the legacy cities of the rust belt, and that stress was nowhere more in evidence than in Detroit.[2] The mounting challenges of urbanization and unionization that swept across the country in the latter half of the 20th century added more pressure. And the negative effects of these macro trends were compounded by the dysfunction of Detroit's own government, which had amassed a track record of poor fiscal choices, inefficiencies, limited capacity, and corruption.[3] For many, Detroit's bankruptcy was not a surprise.

The city's emergence from bankruptcy in less than 16 months, however, represents the result of an unexpected, unprecedented, and extraordinary collaborative effort. Philanthropy gave life and momentum to the chain of agreements known as the Grand Bargain[4] that resulted in the resolution of Detroit's bankruptcy and helped write the narrative that is leading Detroit to a brighter future.

[1] Sugrue, 2005.
[2] Mallach, 2012.
[3] Bomey and Gallagher, 2013.
[4] The term "Grand Bargain" was applied to the deal as negotiations with foundations began in the fall 2013 by *Detroit Free Press* reporters John Gallagher and Mark Stryker.

Reduced to its essentials, the Grand Bargain is an agreement made by a group of philanthropic foundations, the State of Michigan, the Detroit Institute of Arts (DIA), the City of Detroit, and its pensioners. With a commitment of $820 million in new funds over a 20-year period from philanthropy, the State, and the DIA, the Grand Bargain was able to resolve the pensioners' claims. Once settled, this made it possible to negotiate the claims of the city's other creditors. As part of the Grand Bargain, the City of Detroit transferred ownership of the DIA to an autonomous nonprofit entity that had been operating the museum under Detroit's auspices.

The Grand Bargain emerged from the vision and tenacity of U.S. District Judge Rosen, who was appointed to oversee the mediation of the claims against the city. It is in large part the result of his hard work and that of his mediation team, and the leadership that philanthropy provided in taking up the cause and leveraging the participation of the State of Michigan and the DIA. Rosen presented his vision to a group of foundations, and those foundations then stepped up to shape that vision into a narrative that worked for all parties, including the pensioners. Without their commitment and direction, Detroit's story would likely be unfolding in a very different way.

This case first briefly reviews the forces that led to Detroit's economic decline and then describes the steps that led the city's bankruptcy. It then examines the events that led to the Grand Bargain that helped the city exit bankruptcy, and concludes with a more detailed exploration of philanthropy's role and the lessons for bold leadership.

## DETROIT FALLS INTO BANKRUPTCY AFTER DECADES OF DECLINE

In the early part of the 20th century, Detroit was the heart of America's automobile industry. It was home to the "big three": Ford, General Motors, and Chrysler, and was a dominant economic engine in the United States. During this period, the city naturally prospered, becoming one of the country's leading metropolitan regions. However, its influence began to wane in the 1950s. The suburbanization of its economic activity and the ensuing outward migration of its population, primarily white residents, sparked tensions with racial overtones between the city's urban core and the outlying communities. These simmering tensions, coupled with rising economic anxiety, reached a peak in 1967, sparking race riots that further accelerated the suburban exodus.

Over the next few decades, the city's remaining residents grew increasingly impoverished, and as the population shrank and the tax base deteriorated, unemployment and crime increased. Detroit found itself less and less able to provide basic public services such as functioning street lights and public safety protection. This motivated even more residents to leave, causing further declines to the tax base, with little hope for attracting new businesses and families, particularly as the school system fell into disrepair.

Dozens of cities of course, including several in Michigan, have suffered from the same economic forces. But these urban centers have avoided bankruptcy. What set Detroit apart was the magnitude of its decline, exacerbated by fiscal mismanagement. Consider: as Detroit's property tax base plunged 77 percent over 50 years, the size of the city government's workforce shrank just 28 percent.[5] The oversized workforce, thousands in

[5]Rather than right size government with budget cuts, elected officials pursued new sources of tax revenues and increases to existing taxes. For example, the city instituted an income tax in 1962, a utility tax in 1971, and a casino revenue tax in 1999. Property tax rates, both city and county levies, increased from 44.79 mills in the 1960s to 88.178 in 1991. In addition, the city made poor fiscal choices and lacked effective management practices. For example, in the early 1990s Detroit issued $130 million in bonds and used the proceeds to subsidize construction of a new Chrysler factory. The bond issue had not been put up for voter approval, yet would cost taxpayers nearly $250 million in principal and interest over 20 years. For a detailed account of the finances of the city, upon which this section is based, see: Bomey and Gallagher, 2013.

number, collected wages and accrued progressively more generous retirement benefits.

At the same time, the city's pension plans assumed that investments would grow at a higher rate than the rate recommended by actuaries, allowing the city to lower its contributions. This resulted in unfunded obligations. Efforts to use more realistic assumptions were repeatedly opposed by unions. For example, while actuaries working with the city's pensions during the bankruptcy recommended an assumed rate of return of 6.6 percent, union officials balked and instead suggested a return of at least 8.0 percent. That seemingly small difference in assumptions translated into a difference of $1.1 billion.

By 2005, then-Mayor Kwame Kilpatrick was compelled to tell the city council that, if left unaddressed, rising pension obligations would force layoffs. At that point, the city issued $1.44 billion in special bonds, called pension obligation certificates, and used the proceeds to boost pension funding, thus reducing the city's annual contribution. To lock in a steady interest rate, Detroit also bought derivatives from UBS and Merrill Lynch. Although some council members were initially opposed to these actions, pressure from local media and union leaders won them over and the proposal passed unanimously.

Less than four years later, Detroit's credit rating was downgraded, forcing the city to renegotiate the deal. To avoid a $400 million payment and certain bankruptcy in 2008-2009, it pledged casino tax revenue as collateral. At the time of the bankruptcy filing, the $1.44 billion deal was expected to cost nearly $3 billion in principal, interest, and insurance.[6]

Meanwhile, Detroit was failing to collect on money it was owed; by 2013, the city had over $100 million in accounts receivable outstanding for seven years or longer. Detroit also failed to retain important financial documents; for example, it did not keep data on claims paid by the city's health insurance plans.

## BANKRUPTCY ARRIVES

Compounding the city's issues, the auto industry was hit particularly hard during the Great Recession of 2007-08, and was slow to rebound. At this time, the fiscal plight of the city (long obvious to the residents) became more apparent at the state and federal levels and made its way into headlines statewide and beyond, along with reports of corruption and scandal involving former mayor Kwame Kilpatrick and his colleagues.[7]

Under the leadership of Governor Rick Snyder, the state began to scrutinize Detroit's finances and support legislation that would provide the tools to help shore up municipal finances statewide. In January 2012, faced with another year of negative cash flow, State Treasurer Andy Dillon gave then-mayor Dave Bing (Kilpatrick's successor) notice to submit a plan for avoiding the looming fiscal crisis, or have the state declare a financial emergency and the appointment of an emergency manager.

By April, the Mayor and the city council entered into an agreement with the State of Michigan in which the city yielded some fiscal authority to the state, including the Governor's appointment of a six-member Detroit Financial Review Team to assess the city's finances, in exchange for financial support. The team's report, issued in February 2013, concluded that a financial emergency existed in Detroit. The team found that elected officials and bureaucrats routinely violated state law. For instance, rather than address public employee wage and benefit reforms, they used accounting practices that enabled them to engage in deficit spending without passing an amended budget. As a consequence, Governor Snyder exercised his statutory authority to assume control of the city's finances, declaring a financial emergency in Detroit in March 2013 and appointing Kevyn Orr as Detroit's Emergency Financial Manager.

In an effort to forestall bankruptcy, Orr initially considered pension and healthcare cuts for retired city workers. It was not certain, however, that such cuts would survive legal challenges from employees

[6]Bomey and Gallagher, 2013.
[7]The Associated Press, 2010.

and unions. Once promised to employees, pensions are protected from cuts by the Michigan Constitution. The State of Michigan had itself been sued by unions after passing a law in 2010 that required a 3 percent contribution from employees toward their retirement benefits. Two years later an appeals court ruled in favor of the employees. The state appealed to the Michigan Supreme Court, which had not issued a final ruling at the time of Detroit's bankruptcy filing. As a result, it was expected that any attempt to mandate reductions in pensions would be subject to lawsuits.[8]

So Orr sought another way forward, determining to raise additional revenues to address the city's fiscal predicament. The City-owned Detroit Institute of Arts (DIA) was a logical source; it represented the only asset with the potential value to meet Detroit's fiscal obligations. Detroit had already leased its other major asset, Belle Isle, to the state for help with its finances.[9] Soon thereafter, Orr privately told the leaders of the city-owned Detroit Institute of Arts (DIA) that they would have to raise $500 million toward the city's debts or sell a portion of their collection.[10] In reaction, the DIA started bracing for a fight, beginning with the creation of a legal defense fund.

By June 2013, Detroit had halted pension contributions, was failing to make payments on unsecured debts, and was unable to make a required payment toward its outstanding bonds. At that point, Orr drew up a plan of adjustment to restructure the city's finances to avoid bankruptcy by negotiating with Detroit's creditors. But, there was little incentive for the creditors' to acquiesce in reducing their claims.

With his back against the wall, Orr filed for bankruptcy protection for Detroit on July 18, 2013. By this time, the city's liabilities totaled $18.3 billion, approximately 60 percent of which was tied to retired public employee pension, healthcare, and related benefits.[11] This with the highest property and income tax rates in the state. Detroit could have operated with positive cash flow, but only by skipping its annual pension contribution. Orr's projections indicated that 65 percent of the city's budget would be consumed by debt and retirement costs by 2017, leaving precious few resources for running the city for its residents.[12] Rumors flew that if the city went bankrupt, pension cuts would be substantial, 30 percent or more, and that creditors would be receiving as little as ten cents on the dollar. Not surprisingly, the city's two largest pension plans sought restraining orders to prevent a bankruptcy filing, but were minutes late.

In August, U.S. Bankruptcy Judge Steven Rhodes appointed Chief U.S. District Court Judge Gerald Rosen to oversee the mediation of conflicts between Detroit and its many creditors. And on December 5, 2013, Judge Rhodes issued his eligibility opinion in favor of the bankruptcy, ruling that the residents of Detroit would be severely prejudiced if the case were dismissed.[13] He found that Detroit had become "service delivery insolvent" with an extraordinarily high crime rate, too many nonfunctioning street lights, long EMS response times, and acres of urban blight. In effect, he found, the city was unable to deliver essential services to its residents.

Rosen concluded that without the protection of Chapter 9, the city would be forced to continue on the path that it has been on: borrowing money, deferring capital investments, and shrinking its workforce to free up cash for day-to-day operations. And, as he wrote: "The solution has proven unworkable. It is also dangerous for its residents." With Chapter 9 relief, if the city were to reorganize its debt and enhance city services, there would be opportunity for investment in revitalization efforts.

[8] Ultimately, Judge Rhodes, in his ruling on the eligibility for the city to seek bankruptcy protection, held that the pension claims of the city retirees – both uniformed and non-uniformed – could be impaired (Rhodes, 2013). This ruling had the potential to be appealed all the way to the Supreme Court.

[9] Belle Isle is a 982-acre island park in the Detroit River owned by the City of Detroit, but is managed by the Michigan Department of Natural Resources through a 30-year lease initiated in 2013. It is home to the Belle Isle Aquarium, the Belle Isle Conservatory, the Belle Isle Nature Zoo, and the Dossin Great Lakes Museum, and a municipal golf course.

[10] Dolan, 2014.

[11] Because healthcare benefits were financed on a pay-as-you-go basis, those plans also presented Detroit with significant annual costs. The city spent $177.5 million on healthcare in 2012, scattered across a dizzying collection of 22 different plans.

[12] Howes et al., 2014.

[13] Rhodes, 2013.

## THE SEEDS OF THE GRAND BARGAIN

Judge Rosen was intent on making deals to resolve creditors' claims in a consensual process. Without a consensual resolution, the city would be embroiled in a series of lawsuits that could last for years while its fiscal fortunes continued to deteriorate and its despair continued to spiral. This was a very real concern since there were two issues that, if adjudicated, could move all the way up to U.S. Supreme Court: reductions in the public employee pensions, and the selling of the city's art collection that had been purchased with donations from individuals.

At the heart of Rosen's strategy was the resolution of the biggest claim against the city: the pension obligations for Detroit's retirees. If this could be accomplished, he felt that other creditors would be pressured to settle. Rosen believed, as had Orr, that the path to a resolution was leveraging the one significant asset that the city had – the DIA. But the question of how to accomplish that goal still remained.

The creditors, hoping to be kept whole, viewed the sell-off of the DIA collection as a straightforward way to generate sufficient funds to resolve their claims. In fact, Orr had sought a valuation of the art from Christie's even before he filed for bankruptcy. But such an approach was fraught with legal, economic, and political complications. As noted, the city faced an array of associated legal issues, including the question of donor intent in selling off art secured with private donations. Additionally, the issue of valuing individual pieces of art, as opposed to the entire collection, was not well understood. What's more, disassembling the art museum would cause damage to the revitalization of the Woodward Corridor, anchored by the DIA, that was already underway.

Confronted with these realities, Rosen understood that the path to resolution was to find significant "new money" – money that came from outside of the city coffers. This would forestall the city's creditors push to sell (or monetize) the DIA, and would buffer the city's pensioners from draconian reductions. It would also avoid the narrative that the city was divesting itself of an iconic cultural institution that was evidence of its historical glory: Why cannibalize Detroit's heritage to mortgage its future?

Previous efforts to generate help from the state and the Obama administration to rescue Detroit from bankruptcy had been non-starters. So, the question confronting Rosen was: Where can "new money" be found? His job was to make deals, and to make deals he had to have revenues or assets that could be monetized into revenues. And he wanted to do them as quickly as possibile to press for mediation over litigation.[14]

The solution he initially envisioned was to create an art trust – a plan to leverage the art, without selling it, to generate funds to resolve the pension claims. He wrote a note with the words "state," "art," and "pensions" with connecting arrows, and the art in a lock box.[15] If his team could resolve the claims of the city retirees, who were by far the city's largest creditors, they could then proceed to move on to resolve the financial claims of others against the city.

[14] An additional motivation to move quickly was that Orr's authority expired in September 2014; there was a desire to use his extraordinary powers under the emergency manager statues to craft the plan for the future of Detroit.

[15] Davey, 2014.

## PHILANTHROPY COMES TO THE TABLE

During this period in fall of 2013, as Judge Rhodes was in the midst of the eligibility hearing, and as Judge Rosen was operating on a parallel track towards mediation, Rosen had a chance encounter with Mariam Noland in the deli on the first floor of the building that houses the community foundation and sits cattycorner to the Federal Courthouse. Noland, who had served as president of the Community Foundation for Southeast Michigan (CFSEM) since its inception in 1984, asked Rosen in passing to let her know if she could help. It was the sort of thing that many people would say, in those circumstances, but her offer was genuine. In short order, he followed up, requesting a meeting at which he shared his idea of the art trust and his hope that philanthropy could play a role in generating the funds to make it happen.[16] By every account, Noland was a bit skeptical, given the myriad of ways foundations typically operate – slowly and independently – but she was willing to help bring her colleagues together to hear Rosen out. She gave him a list of foundations that she thought might be helpful to his cause.

He reached out to them immediately, and on November 5, 2013, the leaders of 12 foundations met with Judge Rosen and his mediation team. They were impressed with the precision and diligence of the presentation that laid out the enormity of the crisis and the challenge that Detroit faced. But, as Rosen realized during that session, his argument for enlisting philanthropy's involvement was a bit off point. Many of the foundations did not fund the arts, and none of them provided support to pensioners. So how could he persuade them to coalesce around the notion of the art trust? Reading the room, Rosen shifted his focus to argue that what was needed was an investment in Detroit's future.

The meeting went long, and delayed a dinner at Noland's home, prearranged so that Rosen and Eugene Driker, Rosen's mediation partner, could get to know the foundation leaders from out of town – Darren Walker from the Ford Foundation, Alberto Ibargüen from the John S. and James L. Knight Foundation, and Bill White from the Charles Stewart Mott Foundation. The dinner was more social than substantive, but it was clear during the event that the foundation leaders were thinking about the significance of the proposition Rosen had put to the group that afternoon.[17] On the taxicab ride back to their hotel, Walker and Ibargüen, good friends, mused about the possibility and what it would take. Walker confided to his friend that if this was to work, Ford would have to come in big, with funding as high as $100 million. Ibargüen concurred, encouraging him.[18]

Two weeks later, the foundation heads convened at The Kresge Foundation's headquarters and began conversations in earnest about how to respond to Judge Rosen's challenge. There was overall support for the idea, and from that starting point, the group set up committees composed of leaders and senior staff to address the challenges of how the proposition might work in practice. Formal deliberations unfolded in rapid order. A number of side conversations between the foundations' leaders also took place, focused on a range of questions, including: How to frame the issue with their boards? How to understand whether the foundations' contributions might be adequate to address the problem? And under which conditions would they be willing to move forward, provided they could convince their boards to do so? These conversations led to a set of formal conditions that the foundation heads determined would be necessary for their participation, key among them: a substantial contribution from both the state and the DIA, agreement on the part of city pensioners to benefit reductions, and an overall resolution to the bankruptcy.

[16] Dolan, 2014.

[17] Coincidentally, that very day Detroit elected its first white mayor in 40 years, foreshadowing the residents' focus on performance rather than racial politics.

[18] For a fuller account, see Chapter 9, in Bomey, 2016, and Swift, 2016.

By early December, Ford and Kresge were able to commit $125 million and $100 million, respectively, providing an early indication that it might be possible to get enough "new money" to buffer severe cuts to pensions of the retired city workers and preserve the DIA. In short order, the other foundations, as noted in Table I, joined in at varying levels, representing different degrees of "stretch" in the percent of funds that were to be contributed. The foundations then began ironing out details of the conditions and mechanisms that would be necessary to implement the Grand Bargain.

On January 13, 2014, Judge Rosen announced that, in addition to Ford and Kresge, Knight ($30 million), Davidson ($25 million), CFSEM ($10 million), Hudson-Webber ($10 million), Mott ($10 million), Erb ($10 million), and McGregor ($6 million) were committing, for a total of $326 million. Kellogg joined later that month with a commitment of $40 million. The Schaap[19] and Fisher foundations committed $5 million and $2.5 million, respectively, though their contributions were credited as part of the subsequent $100 million commitment from the DIA. Skillman made a commitment of $3.5 million in June 2014, specifically for the health benefits of retirees.[20]

This group of foundations coming together to commit a substantial sum of money catalyzed the State of Michigan's participation, which in turn, led to the DIA's contribution. Together, there were suddenly sufficient resources to address the pension claims of the public employees. This exerted pressure on the private sector creditors to negotiate their claims, resolving the bankruptcy. The philanthropic community responded to Judge Rosen's challenge, with speed and force, working without a script, and their actions had proven critical to the eventual resolution of the bankruptcy.

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[19]The A. Paul and Carol C. Schaap Foundation was not part of the group of foundations that met with Judge Rosen. Upon reading about Judge Rosen's efforts to secure foundation contributions, Paul Schaap met with Judge Rosen and became the first to commit publicly to the effort (Gallagher, 2013).

[20]Technically, the Skillman Foundation contribution is not part of the agreement approved by Judge Rhodes (see: Rhodes, 2014) since it is not tied to the pensions of the retired city workers. Nevertheless, it has become common to include it in discussions about philanthropy's role in the Grand Bargain.

## TABLE I: FOUNDATIONS OF THE GRAND BARGAIN

| Funder* | Short Descriptor** | Contribution |
|---|---|---|
| Ford Foundation (Darren Walker) | Founded in 1936, Ford's mission is to reduce poverty and injustice, strengthen democratic values, promote international cooperation, and advance human achievement. Incorporated in Michigan and now based in New York City, it has total assets of $12.5 billion and an annual grantmaking budget of $524 million. | $125 million |
| The Kresge Foundation (Rip Rapson) | Founded in 1924, Kresge works to expand opportunities in America's cities through grantmaking and social investing in arts and culture, education, environment, health, human services, and community development in Detroit. Based in Troy, Michigan, it has total assets of $3.6 billion and an annual grantmaking budget of $140 million. | $100 million |
| W.K. Kellogg Foundation (La June Montgomery Tabron) | Founded in 1930, Kellogg supports children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society through education. Based in Battle Creek, Michigan, it has total assets of $8.6 billion and an annual grantmaking budget of $294 million. | $40 million |
| John S. and James L. Knight Foundation (Alberto Ibargüen) | Founded in 1950, Knight advances journalism in the digital age and invests in the vitality of communities where the Knight brothers owned newspapers focusing on projects that promote informed, engaged communities and that lead to transformational change. Based in Miami, it has total assets of $2.3 billion and an annual grantmaking budget of $116 million. | $30 million |
| William Davidson Foundation (Jonathan Aaron) | Founded in 2005, the William Davidson Foundation seeks to preserve and enhance Jewish identity and tradition in the United States and Israel and strengthen and revitalize Southeast Michigan. Based in Troy, Michigan, the foundation has total assets of $849 million and an annual giving budget of $51 million. | $25 million |
| Community Foundation for Southeast Michigan (Mariam Noland) | Founded in 1984, the Community Foundation seeks to enhance the quality of life of residents in seven counties of southeast Michigan: Wayne, Oakland, Macomb, Monroe, Washtenaw, Livingston and St. Clair. Based in Detroit, the foundation has total assets of $765 million and an annual grantmaking budget of $99 million. | $10 million |
| Charles Stewart Mott Foundation (Bill White) | Founded in 1926, Mott supports efforts that promote a just, equitable and sustainable society with the primary focus on civil society, the environment, poverty, and the area of Flint, Michigan, where it is based. The foundation has total assets of $2.8 billion and an annual grantmaking budget of $73 million. | $10 million |

*The principals listed are the individuals that were centrally involved during the Grand Bargain deliberations and interviewed in the development of this case: La June Montgomery Tabron assumed the role of president and CEO of the Kellogg Foundation in January 2014. She previously served as the foundation's controller and executive vice president of operations; David Egner was the president of the Hudson-Webber foundation during the Grand Bargain before transitioning to the Ralph C. Wilson Jr. Foundation in 2016; Kate Levin Markel assumed the role of president of the McGregor Fund in April 2014. She previously served as the foundation's chief operating officer; Tonya Allen assumed the role of president and CEO of the Skillman Foundation in January 2014. She previously served as the foundation's chief operating officer and vice president of programs.

| Funder | Short Descriptor | Contribution |
|---|---|---|
| Fred A. and Barbara M. Erb Family Foundation (John Erb) | Founded in 2008, the Erb Foundation nurtures environmentally healthy and culturally vibrant communities in metropolitan Detroit and supports initiatives to restore the Great Lakes Basin. Based in Bloomfield Hills, Michigan, it has total assets of $285 million and an annual grantmaking budget of $8.5 million. | $10 million |
| Hudson-Webber Foundation (Dave Egner) | Founded in 1943, the foundation concentrates efforts and resources in Detroit, Michigan, and in support of projects focused on physical revitalization, economic development, enhancement of major art and cultural institutions, and safe communities. Based in Detroit, the foundation has total asset of $161 million and an annual grantmaking budget of $7.6 million. | $10 million |
| McGregor Fund (Kate Levin Markel) | Founded in 1925, the foundation is organized to relieve misfortune and improve the well-being of people in Michigan by supporting activities in human services, education, health care, arts and culture, and public benefit. Based in Detroit, it has total assets of $182 million and an annual grantmaking budget of $7.4 million. | $6 million |
| A. Paul and Carol C. Schaap Foundation*** (Paul Schaap) | This family foundation primarily gives to higher education, including the Presbyterian seminary, in Michigan as well as Kentucky. Based in Detroit, it has total assets of $3.8 million and total giving of $1.2 million. | $5 million |
| Skillman Foundation**** (Tonya Allen) | Founded in 1960, the foundation is a resource for improving the lives of children in metropolitan Detroit by fostering positive relationships between children and adults, supporting high quality learning opportunities and strengthening healthy, safe, and supportive homes and communities. Based in Detroit, it has assets of $475 million and an annual grantmaking budget of $18.2 million. | $3.5 million |
| Max M. & Marjorie S. Fisher Foundation*** (Douglas Bitonti Stewart) | Founded in 1955, the foundation seeks to enrich humanity by strengthening and empowering children and families in need with a focus on the needs of the Jewish people, and the legacy and commitment to the Detroit community. Based in Southfield, Michigan, it has total assets of $276 million and an annual grantmaking budget of $12.5 million. | $2.5 million |

**Foundation profiles are based on foundation websites and the Foundation Directory online, last accessed November 2016.

***The contributions of the Schaap and Fisher foundations were credited to the DIA commitment and are not included in Judge Rhodes' final ruling.

****The Skillman Foundation contribution is not part of the agreement approved by Judge Rhodes since it is tied to health benefits rather than pension benefits. Although not technically part of the Grand Bargain, it is commonly included in the discussions about philanthropy's role in solving the bankruptcy.

## THE STATE JOINS IN

After learning of the large commitments made by the Ford and Kresge foundations, Rosen and Driker felt that they could reasonably visit Michigan Governor Snyder at the state capitol in Lansing to discuss the possibility of the state matching the foundations' funds. Snyder had previously turned down anything resembling a Detroit bailout, and the state's Republican-controlled legislature – with house and senate majorities – had no incentive to aide heavily Democratic, labor-friendly Detroit. Many state legislators in fact believed that Detroit's unions had contributed to the city's problem by not relenting on their demands for the pension and health benefits that had pushed Detroit into bankruptcy.

During the meeting with Snyder on December 13, 2013, Rosen noted that nearly $300 million had been committed by foundations toward the Grand Bargain and urged Snyder to involve the state.[21] Rosen told the Governor that with the commitments coming from philanthropy conditioned on a state match – a fact that would soon become public – the state would be hard-pressed to let the philanthropic dollars slip away. Snyder asked Rosen during the meeting how much he expected the foundations to put up at the end of the day, and Rosen suggested $350 million. Snyder saw the deal's potential as clearly as he saw the downside of his refusing, and committed to working with the legislature to match the figure, much to the chagrin of his aides who thought it would present a heavy lift with the legislature. And, the Governor added his own condition: He wanted Detroit to ensure that the retirees' pensions, with whatever cuts that were coming, would not cause them to fall below the poverty line and thereby draw on state services.

As the size of the state's role was being considered in the legislature, two fears associated with Detroit's bankruptcy began to shift more opinions in favor of the state match. First there was the realization that significant pension cuts could place thousands of Detroiters onto state-funded safety net programs including Medicaid, ultimately costing the state millions of dollars. Second, the Snyder Administration was worried that Michigan could end up "on the hook" for most of Detroit's debts.

The legislature approved an up-front contribution of $190 million on June 3, 2014 – the equivalent of $350 million over 20 years.[22] The funds were drawn primarily from the state's budget stabilization ("rainy day") fund with partial reimbursement from tobacco settlement funds. The state contribution initially was not allocated directly to Detroit's pension plans. Instead, the funds were retained by a Settlement Administration Authority until the city met certain conditions. Specifically, the state insisted that Detroit limit healthcare contributions for its employees, reduce the formula used to calculate pension benefits, and cede financial oversight to a newly-appointed Financial Review Commission. The Commission, a mixture of state and local officials both appointed and elected, would retain authority over all collective bargaining agreements and all contracts exceeding $750,000, and was given the authority to modify the city's budget, if necessary.

## THE DETROIT INSTITUTE OF ARTS STEPS UP

The history of the DIA has been defined in part by shifting roles and responsibilities between the public and nonprofit sectors, as sketched out in Box I: Detroit's Treasures: The Detroit Institute of Arts. As noted earlier, many creditors had their sights set on the DIA, and so the organization had been on the defensive. Tensions only intensified once Orr asked renowned auction house Christie's to value the museum's collections, motivating the DIA to create a legal defense fund.

As bankruptcy hit, the museum was in the midst of a $275 million fundraising campaign to build an endowment to fund its operating costs after 2022. (In 2012, the three counties that are most heavily served by the museum – Wayne, Macomb, and Oakland – had passed a millage to underwrite operating costs for 10 years; in 2015, those taxes accounted for 44 percent of DIA revenues).[23] Early on in the formation of the Grand Bargain, the DIA did offer to commit $25 million to the deal when Rosen approached them, but both the Governor and the foundations believed that DIA should up its offer, given that, under the Grand Bargain, the organization would gain its independence and its art would be

[21] Howes et al., 2014.
[22] Given the budgeting processes, it was easier for the state to appropriate a lump sum than create a funding stream of $350 million over a 20-year period.
[23] DIA FY 2015 Audited Financial Statements.

## BOX I: DETROIT'S TREASURES: THE DETROIT INSTITUTE OF ARTS*

The Detroit Institute of Arts is one of the premier art museums in the United States, and indeed in the world. Among its significant collection of treasures: the first publicly acquired and displayed Vincent van Gogh painting in the United States, and Diego Rivera's Detroit Industry murals.

The museum was formed as a nonprofit in 1898, and the City of Detroit contributed funds to help its development. In 1919, however, faced with uncertain and unstable finances, the museum was taken over by the city, with its nonprofit board of trustees becoming the Founder's Society, a support group for the museum. At that time, the city began to administer the museum as a city department with public funds allocated for its operations, and the Founder's Society raising funds for acquisitions and the support of its facilities, including a move to Woodward Avenue (where it is located today) in 1927.

The fortunes of the region, reflected in the accumulation of wealth and robust public finances, helped to propel the museum's standing for several decades. However, fiscal challenges emerged as those fortunes waned, resulting in the museum's loss of guaranteed city funding in the mid-1970s. While public funding provided a lifeline to the museum at times, the city required that the museum compete against the other aspects of city services. In 1975, because of the city's limited fiscal capacity, the State of Michigan stepped in to provide operating support, which was significantly curtailed in the 1990s.

With its reliance on public funding, the DIA was buffeted by the budgetary politics of both the city and the state, leading to considerable uncertainty. In 1998, in an attempt to stabilize its finances, the DIA sought to create a degree of autonomy by entering into a contractual agreement with the city to have the Founder's Society operate the museum while the City retained ownership through its Arts Commission.

The museum went through six years of renovation and expansion in the early 2000s and reopened in 2007. The state ceased its funding after the recession of 2002, leading the museum to focus on seeking public funds to cover the operating costs with the reopening. In 2012, the three counties that are most heavily served by the museum –Wayne, Macomb, and Oakland – passed a millage to underwrite its operating costs for 10 years. These revenues provide about two-thirds of the operating costs for the DIA.

Under the terms of the Grand Bargain, the DIA became an independent nonprofit organization, no longer legally connected to the city. The organization is working now to create an endowment that will be able to replace the public funds it receives from the millage rate agreement after 2022.

*For more background on the history of the DIA, see: Abt, 2001.

protected. Moreover, the notion of having philanthropy and the state contribute to the claims of city pensioners, while the DIA stayed largely on the sidelines, was political folly. Once Snyder committed the state, he shifted his attention to getting the DIA to step up in a more substantial way.

To that end, Snyder invited Gene Gargaro, chair of the DIA board of directors, to join him at a meeting of the U.S. Conference of Mayors on January 24, 2014 where the Governor was to receive an award from the Americans for the Arts for his support of the arts. Meeting after the ceremony, Gargaro told Snyder that the DIA had reviewed its ability to participate and was ready to contribute $50 million. But Snyder was looking for a bigger contribution, especially after reviewing the museum's financials. He made it clear that he was looking to the DIA to contribute $100 million.[24] Gargaro agreed, bringing the total funds produced through the Grand Bargain to $820 million.

The DIA had pivoted from preparing for litigation to joining in the Grand Bargain with a $100 million pledge. And a year after the agreement with the

[24] Bomey, 2016.

Governor, the organization announced that pledges to support that target had reached $90 million, an amount that – including interest – was the equivalent of $100 million. The automobile industry provided lead gifts to the DIA, as noted in Table II. GM (the corporation and its foundation) and the Ford Motor Company Fund each pledged $10 million, and Chrysler contributed $6 million. In addition, a number of Detroit area businesses came in with significant contributions, including Penske Corporation at $10 million, DTE Energy and Dan Gilbert's Quicken Loans/Rock Financial at $5 million each, and Blue Cross Blue Shield of Michigan at $3 million. Another four corporate contributors committed $1 million each. Two leading national foundations with a substantial focus on the arts also joined the effort with significant contributions; the J. Paul Getty Trust committed $3 million, and the Mellon Foundation offered a matching grant up to $10 million. A number of individual donors and family foundations also offered support. And, as noted previously, funding from the Fisher and Schaap foundations was credited to the DIA.

With significant DIA involvement in the Grand Bargain, the museum's board and its contributors were able to stave off the demise of the museum, and effectively shut down the battle that had been brewing with the struggling city pensioners and their supporters. As part of the agreement, the DIA was also able to gain its independence and autonomy from the city. Untethered, the museum was now able to chart its own course in building its endowment and seeking art collections from donors who might have been reticent when the museum was city-owned.

## TABLE II: CONTRIBUTIONS TO THE DIA'S $100 MILLION COMMITMENT

| Funder | Short Descriptor* | Contribution** |
|---|---|---|
| General Motors/GM Foundation | Founded in 1976, this company-sponsored foundation supports programs designed to promote sustainability, STEM Education, and safety in communities where General Motors operates. Based in Detroit, it has an annual grantmaking budget of $30.8 million. | $10 million |
| Ford Motor Company | The grantmaking body of the Ford Motor Company was founded in 1949 to improve opportunities for those who live in Ford communities with a special emphasis on hunger relief, health, and cultural activities; education. Based in Dearborn, Michigan, it has an annual grantmaking budget of $30.2 million. | $10 million |
| Penske Corporation | Penske Corporation is a transportation services company with subsidiaries operating in the retail automotive, truck leasing, transportation logistics, and professional motorsports businesses. The corporation manages businesses with revenues in excess of $26 billion, operating in more than 3,300 locations, with 50,000 employees. | $10 million |
| The Andrew W. Mellon Foundation | Founded in 1940, this private foundation concentrates most of its grantmaking in the areas of higher education, art history, conservation, museums, performing arts, scholarly communications, and information technology. It has total assets of $6.4 billion and an annual grantmaking budget of $232 million. | $10 million |

*Data for privately held companies was taken from corporate websites and news reports; information regarding foundations was taken from the Foundation Center's Directory Online, using the most recent data available.

**Pledges are as reported by the *Detroit Free Press*; Mellon Foundation pledge is quoted as "up to" $10 million; amounts shown are not discounted to their present value. Information for privately held companies was taken from corporate websites and news reports; information regarding foundations was taken from the Foundation Center's Directory Online, using the most recent data available.

| Funder | Short Descriptor | Contribution |
|---|---|---|
| Fiat Chrysler Automotive (FCA) US LLC (formerly Chrysler Group LLC) | FCA US LLC designs, engineers, manufactures, and sells vehicles under the Chrysler, Jeep, Dodge, Ram, and FIAT brands, as well as the SRT performance vehicle designation. Based in Auburn Hills, Michigan, FCA is the seventh-largest automaker in the world based on total annual vehicle sales. | $6 million |
| DTE Energy | DTE Energy Co. is an energy company involved in the development and management of energy-related businesses and services nationwide, providing electric and/or gas services to more than three million customers in Michigan. | $5 million |
| Quicken Loans/Rock Financial | Quicken Loans is a mortgage lending company headquartered in Detroit's financial district. In 2012, it became the second largest overall retail lender in the U.S.; as of this writing, it is the largest online retail mortgage lender in the country. | $5 million |
| J. Paul Getty Trust | Founded in 2008, the Erb Foundation nurtures environmentally healthy and culturally vibrant communities in metropolitan Detroit and supports initiatives to restore the Great Lakes Basin. Based in Bloomfield Hills, Michigan, it has total assets of $285 million and an annual grantmaking budget of $8.5 million. | $10 million |
| Blue Cross Blue Shield of Michigan | Blue Cross Blue Shield of Michigan is a nonprofit and one of the largest independent licensees of Blue Cross Blue Shield Association. Headquartered in downtown Detroit, it provides and administers health benefits to more than 4.3 million Michigan residents. | $10 million |
| Meijer Incorporated | Meijer, Inc. is a privately held regional American grocery store chain with its corporate headquarters in Walker, Michigan, near Grand Rapids. About half of the company's 200 stores are located in Michigan's Lower Peninsula, with additional locations in Illinois, Indiana, Ohio, Wisconsin, and Kentucky. | $6 million |
| Toyota Motor Company | Toyota Motor Corporation is a Japanese automotive manufacturer. Toyota was the largest automobile manufacturer in 2012 (by production) and, in 2016, the 13th-largest company in the world by revenue. | $1 million |
| Comerica Bank | Comerica, Inc. is a financial services company headquartered in Dallas, Texas. It was founded in Detroit in 1849 as the Detroit Savings Fund Institute. It is among the 25 largest U.S. financial holding companies, with $70 billion in total assets. | $1 million |
| JP Morgan Chase | JPMorgan Chase & Co. is a multinational banking and financial services holding company headquartered in New York City. It is the largest bank in the United States, and the world's sixth largest bank with total assets of $2.35 trillion. | $1 million |

## THE RETIREES: THE REAL HEROES

The retirees, like the private sector creditors, had initially considered the DIA as an asset that would buffer them from cuts that bankruptcy threatened. Against that backdrop, Orr released his first plan of adjustment on February 21, 2014. In it, he proposed cuts of 34 percent in pension funding for the civilian retirees and 10 percent for the police and fire retirees. If they agreed to relinquish their right to sue, then those cuts would fall to 26 and 6 percent, respectively. Both groups of retirees stood firm and rejected the plan.

Orr went back to the drawing board, proposing a second plan of adjustment in March. But this time he raised the stakes for the retirees. For the police and fire retirees, for example, he proposed increasing the cuts to 14 percent if the retirees refused to give up their right to sue, and he proposed taking back excessive annuity bonuses that had been granted to some civilian retirees in the previous decade.

However, once the “new money” from the Grand Bargain was put on the table, the pensioners began to reconsider. They knew that they could hold firm and appeal Judge Rhodes’ ruling – with an uncertain outcome. Or, they could accept a reduction and avoid protracted litigation. The retirees had little appetite to mount an uncertain and potentially prolonged legal challenge. So they began to focus on getting the best offer they could from the city.

The official pensioners committee appointed by Judge Rhodes and the two retired employee groups – Detroit Retired City Employees Association (DRCEA) and the Retired Detroit Police & Firefighters Association (RDPFA) – recommended that the pensioners accept the negotiated agreement. Shirley Lightsey, president of DRCEA, and Ryan Plecha, DRECA’s attorney came up with a blunt but fitting slogan to press the pensioners accept the terms: “You can’t eat principles, and uncertainty doesn’t pay the bills.” Pragmatism won over principles; the retirees begrudgingly voted in favor of the plan to protect against greater cuts and uncertainty. The police and firefighter pensioners voted 82 percent in favor and the non-uniformed city pensioners voted 73 percent in favor.

The police and firefighters retirees were able to escape cuts to their monthly pensions, taking cuts to their cost-of-living adjustments from 2.25 to 1 percent instead. The non-uniformed city retirees agreed to reductions in their monthly benefits of 4.5 percent plus the total elimination of their cost-of-living adjustments, and some were required to give back a share of the annuity bonuses they had received from 2003 to 2013.

It is important to reiterate the fact that the “new money” from the Grand Bargain was dedicated to a specific group of creditors – the retirees – and not accessible to other groups of creditors. The arrangement was possible because the money was not coming from the city. But if the retirees hadn’t agreed to the adjustment, the funds would have evaporated. As one foundation president noted: “There were a number of strong leaders from different quarters that made this possible… but the real heroes were the pensioners. Without their agreeing to reductions, the possibility of a consensus resolution would not have materialized.”

## EXITING BANKRUPTCY

With the pensioners willing to accept the reductions proposed in the plan of adjustment and relinquish their rights to sue, the largest claim against the city was off the table. Left to be resolved were the claims of private sector creditors: Syncora and FGIC. For them, it was a business transaction, and they had no access to the “new money” raised through the Grand Bargain; their claims could only be pressed against city finances. They wanted the city to honor its obligations, and believed that the DIA should be the source of the monies owed them. But they knew that if Judge Rhodes approved the Grand Bargain, their leverage would diminish. In the end, they settled.

Judge Rhodes conducted a hearing in early September 2014 for the purpose of confirming that the resolution of the bankruptcy – including the Grand Bargain – would fairly serve the interests of the creditors and could be implemented. To do so, the city was required to provide evidence on its finances, the settlements, and its future plans. During the hearing, Syncora and FGIC struck deals with the city through Judge Rosen, which Judge Rhodes accepted. With all of the creditors reaching settlements with the city, the final business before Judge Rhodes was ensuring that the plan put the city on track to restore public services in a financially sustainable way.

On November 7, 2014, Judge Rhodes confirmed the city's plan of adjustment, ruled that settlements included were reasonable, fair and equitable, and that the exit-financing fulfilled the requirements of the bankruptcy code. He concluded his oral opinion with a message for city leaders:

> *"To the current leadership of the City, you are about to get your City back from us in the bankruptcy world. We give it back to you with the fresh start that this City needs and deserves under our federal bankruptcy laws…It is now on you to implement this plan. I have found that you will do that. Please make me right. It is in the City's best interest. The City's true and full fresh start depends on it."*

And, for the residents of Detroit:

> *"Before I conclude, I want to address the people of the City of Detroit, whose passion for this City is remarkable in its breadth, in its expression, and in its unwavering endurance. I just said that your leaders are about to get the City back. Actually of course, it is you who are about to get your City back. It is your City…I urge you now not to forget your anger. Your enduring and collective memory of what happened here, and your memory of your anger about it, will be exactly what will prevent this from ever happening again. It must never happen again…We have used the phrase, the grand bargain, to describe the group of agreements that will fix the city's pension problems. That description is entirely fitting. In our nation, we join together in the promise and in the ideal of a much grander bargain. It is the bargain by which we interact with each other and with our government, all for the common good. That grander bargain, enshrined in our constitution, is democracy. It is now time to restore democracy to the people of the City of Detroit. I urge you to participate in it. And I hope that you will soon realize its full potential." (Rhodes, 2014, p. 47-48).*

Rosen's strategy proved right. Detroit emerged from bankruptcy in a remarkably short period of time as detailed in the timeline presented in Table III. His approach provided the possibility for a brighter future for Detroit, rather than years of legal battles that would have put a vise on its prospects. There are no guarantees, but city officials and residents now have Detroit's future squarely in their hands. officials and residents have the city's future squarely in their hands.

## DETROIT'S FINANCIAL EMERGENCY, BANKRUPTCY, AND THE GRAND BARGAIN: A TIMELINE*

| | | |
|---|---|---|
| **2013** | FEB | State review team unanimously concludes that the city failed to restructure its debt, and there is a need for Governor Snyder to intervene. (Feb. 19) |
| | MAR | Governor Snyder declares a financial emergency and appoints Kevyn Orr as emergency manager. Subsequently, Public Act 436 takes effect, expanding the powers to the emergency manager. (March 1)<br><br>Public Act 436 takes effect, and expands powers of emergency manager. (March 27) |
| | MAY | Orr declares that the city is insolvent and is unable to borrow additional money. (May 13) |
| | JUN | Orr unveils a plan to restructure the city's finances to avoid bankruptcy. (June 14) |
| | JUL | Orr files for municipal bankruptcy in U.S. District Court's Eastern District in Detroit. (July 18)<br><br>Judge Rhodes is assigned Detroit's bankruptcy case. (July 19)<br><br>Rhodes freezes all lawsuits against the bankruptcy. (July 24) |
| | AUG | Orr announces that he has asked Christie's to value the DIA collection. (Aug. 5)<br><br>RRhodes creates a pensioner committee to represent the pensioners in the process.<br><br>Judge Rosen of the U.S. District Court for the Eastern District of Michigan is appointed mediator between the city and its creditors. (Aug. 13) |
| | NOV | Rosen meets with foundation leaders to explore whether philanthropy would protect the DIA by helping to support retiree pensions. (Nov. 5)<br><br>Foundation leaders meet, among themselves, for a second time at The Kresge Foundation. (Nov. 20) |
| | DEC | Rhodes rules that Detroit is eligible to file for Chapter 9, and public employee pensions can be diminished in bankruptcy, notwithstanding the Michigan Constitution. (Dec. 3)<br><br>Philanthropist Paul Schaap announces plans to donate $5 million to the Grand Bargain. (Dec. 6)<br><br>Kresge board approves commitment of $100 million and Ford informs Rosen that it will commit $125 million. (Dec. 4 and Dec. 9) |
| **2014** | JAN | Rosen announces that nine foundations have pledged $330 million: CFSEM, Ford, Kresge, Knight, Mott, Erb, Davidson, McGregor, and Hudson-Webber. (Jan. 13)<br><br>DIA pledges $100 million to the Grand Bargain. (Jan. 29)<br><br>Kellogg approves $40 million contributions. (Jan. 28) |
| | JUN | State legislature approves the state's participation in the Grand Bargain, approving $195 million in state funds for aid to Detroit and long-term oversight of city finances. (June 3)<br><br>The Skillman Foundation announces pledge of $3.5 million for pensions. (June 3) |
| | SEP | Rhodes begins plan of adjustment confirmation trial that slashes debt more than $7 billion and reinvests $1.4 billion over ten years for public services. (Sept. 2)<br><br>Duggan, City Council get control of the city back from Orr, keep him on to run the bankruptcy. (Sept. 25) |
| | NOV | Rhodes issues final opinion in the federal bankruptcy case, approving the plan of adjustment. (Nov. 7) |
| | DEC | First payment to the city pensions made by the Foundation for Detroit's Future. (Dec. 10) |

*This timeline draws on those published by the *Detroit Free Press* (Bomey, 2014) and the *Detroit News* (2014)


A scene from the Detroit Jazz Festival in Hart Plaza. Photo credit: Len Katz.


Spirit of Detroit, an iconic city monument at the Coleman A. Young Municipal Center on Woodward Avenue.
Photo credit: River North Photography.

# Philanthropy

## Working Without a Script

Philanthropy created brighter prospects for Detroit by catalyzing the Grand Bargain. Without its efforts, Judge Rosen's strategy of a consensual resolution of the financial claims against the city would have had little chance of succeeding. Once the foundation leaders understood the dimensions of the problem as laid out by Kevyn Orr, Rosen, and Rosen's mediation team, there was no question. They saw that the proposal before them was an opportunity they could not ignore. The consequences of leaving the adjudication of the bankruptcy to litigation would have created uncertainty, exacerbating the crisis. With no end in sight, those circumstances would have undermined the good work in Detroit that they had done in the past and set them up to struggle to regain lost ground in the future.

Thus, the foundations came to share a common vision and commitment for the future of the city, each finding their own way to see that the Grand Bargain was integral to their goals even if saving the city and providing a hopeful future was not articulated in their mission statement or specified in their strategies. Lacking any sorts of templates to guide them, the foundations had to develop a plan and a set of conditions themselves that would answer their own questions and address the concerns they had surfaced as they contemplated such an unconventional role. And even with that case in hand, they were cognizant that there were no guarantees of success. They all understood that the Grand Bargain had the potential to solve the bankruptcy, but that was not the ultimate goal. The Grand Bargain merely made it possible for a brighter future. The hard work of revitalizing Detroit would still lie ahead.

### GETTING TO YES

The individuals who met with Judge Rosen and his mediating team on November 5, 2013 represented a diverse group of funders, as Table 1 shows. To create the invitation list, Noland had tried to identify foundations that she imagined would be receptive to the challenge and had the wherewithal to meet it. All had strong connections to the city.

The Ford, Knight, and Kresge foundations, all with national/international reach, had roots in Detroit. The Ford Foundation, for example, had been created and incorporated in the State of Michigan and based in Detroit. The foundation had long since moved its headquarters to New York, but in recent years, Michigan's attorney general had been pressing Ford to do more in Michigan. Serendipitously, Darren Walker, with his recent appointment as president of the Ford Foundation, had a keen interest in rekindling ties with the city and the Ford family. The Kresge Foundation, too, had a long history in Detroit. Under Rip Rapson's leadership, Kresge had deepened its focus on the city in recent years, taking bold steps towards revitalization with a number of inventive and large-scale investments. And, The Knight Foundation, created by James and John Knight, had ties to communities where the family operated newspapers, including the Detroit Free Press, and had been involved in a number of recent local efforts to revitalize Detroit.

The Kellogg and Mott foundations, based in Battle Creek and Flint, respectively, shared an affinity with Detroit. With their deep history and strong reputations throughout Michigan, these foundations instinctively embraced the idea that Detroit's bankruptcy wasn't an issue confined to the city limits, but had implications throughout the state.

Importantly, it was not just the large national foundations that were at the table that day, and in the conversations that followed. Detroit is home to a number of local foundations that had been focused on the city for decades: the McGregor Fund, which traces its history back to 1925; the Hudson-Webber Foundation and the Fisher Foundation, which were both founded in 1955; and the Community Foundation for Southeastern Michigan, which was created in 1984. These foundations were also at the table. As were newer foundations: the Detroit-based Davidson Foundation, founded in 2005, and the Erb Foundation, founded in 2008. These local funders, along with the national foundations, had been working to revitalize Detroit in their own ways – sometimes on their own, and sometimes in collaboration with one another – for years before the city's bankruptcy.[25] And they were all full participants in the conversations that led to the Grand Bargain.

The foundation leaders came to understand that the consequences of not acting would only prolong the crisis. Litigation around two central issues in the bankruptcy – reducing pension benefits and selling the art that was privately donated – could be tied up in the courts for years. Moreover, they understood that their philanthropic work focused on improving Detroit and the quality of life of its residents would have been undermined. They all shared a vision of hope for Detroit's future. And based on that vision, they soon came to agree that the Rosen's proposal was not about saving the art, providing support to public employees, or bailing out the city, but was an investment in the future prospects for Detroit and its residents.

The issue was believing that they could play the role that Judge Rosen had in mind for them. The magnitude of the funds needed was large – originally suggested in the range of $500 million – and the prospect required an unprecedented level of collaboration. It was immediately clear to Walker and Rapson that Ford and Kresge would need to be key players to make Rosen's strategy possible. In fact, after the meeting on November 13, 2013, Walker told Rapson that he believed the Ford Foundation should lead the effort. In early December, Rapson, in turn, told the Kresge board: "Ford will be unable to participate without Kresge, and Kresge will gain heft and legitimacy by virtue of Ford's involvement." On December 4, Kresge agreed to contribute $100 million. Shortly thereafter, on December 9, Ford pledged $125 million.[26]

With the substantial contributions from Ford and Kresge, the idea that philanthropy could serve a catalytic role began to take hold. The rest of the group went to work on getting their boards to buy into the idea and determine a contribution to the effort. The group's members trusted each other to work through the imperatives of their own foundations. Each had to arrive at the maximum level of support that was possible, given their priorities, existing commitments, and plans for the future. And each were able to do so with no formula to guide them. Obviously, the foundations with greater assets were in a position to make larger contributions. However, some of the smaller foundations, such as Hudson-Webber and Erb, made great stretches in terms of their contributions relative to their assets and grantmaking levels. All told, the contributions made by the individual foundations were the largest single commitment that many of them had ever made.

As generous as the commitments were, it is important to note that the payments will occur over time as pension obligations come due. The timeline was set at 20 years. This made it easier for the foundations to commit to these large sums. The impact on their balance sheets is not as stark as it first appears.

The more dramatic aspect of the foundations' actions, in fact, was the speed with which they came to their decisions and their willingness to step outside the confines of their usual practices in doing so. Most of the foundations had committed funds for the Grand Bargain just over two months after Rosen's first meeting with foundation leaders. That's a record short time for such large commitments spanning such a

[25] Ferris, 2017
[26] Dolan, 2014

long period of time. Other foundations signed on in due course, to the extent that the group – a mix of large and small, national and local, and family and independent foundations – created the sense that this was philanthropy acting, not the work of just one or two large, national foundations with support from a panoply of funders.

In addition to the speed, the foundations were also able to create their own processes for addressing a range of concerns and issues that had emanated from board room discussions. As they were being asked to play this uncommon role, they exhibited tremendous levels of respect, and flexibility, drawing out and considering different opinions as they worked in concert with Judge Rosen and his team to answer questions such as: What conditions would have to be met to ensure their participation? How could they ensure that the other parties proposed as part of the Grand Bargain would join in: the State of Michigan, the DIA, and the pension groups? How could they be assured there was a pathway to restoring public services and revitalizing the city? How would they ensure the city would not repeat past mistakes, lapsing into its old ways of doing business? What mechanisms could be instituted to hold the city accountable and ensure the new funds were managed properly?

The foundations were determined that the mistakes of the past would not be repeated – that is, they were determined that Detroit not fall back into the behaviors and habits that had led it into bankruptcy in the first place. Providing an extraordinary example of collaborative decision-making, they invented the due diligence processes, accountability mechanisms and conditions they needed as they went along.

In addition, the foundations wanted to ensure that their actions wouldn't be setting a precedent of any kind; put bluntly, they didn't want other cities going to foundations with the expectation that philanthropy would be able to bail them out.

## WORKING OUT THE DETAILS

What did those processes look like on the ground? Essentially, the foundation leaders spent a great deal of time working with their boards, in conversation with their staffs, and in dialogue with each other. The foundation leaders, for example, had weekly Sunday afternoon conference calls that enabled them to keep abreast of the developments in fast-moving negotiations. During these calls, they shared the kinds of concerns that their directors were raising and the kinds of arguments that were working in their board rooms. They also discussed and debated the ways in which they might create a workable framework for implementation.

These meetings were convened by Darren Walker, who, by all accounts, was masterful in creating an environment conducive to a full and open discussion of the pros and cons of entering into such an agreement. Walker engendered a sense of trust and respect among all members of the group that enabled their willingness to be transparent with one another, sharing intelligence, raising concerns, and even contacting each other between meetings to further discuss specific issues. All those participating felt included and important – not an easy feat, especially with the range of foundations involved. And because of that, the group gained confidence that philanthropy as a whole could in fact contribute to the future of the city in this profound way.

The foundations' deliberations were supported by a handful of working committees: executive, legal/administrative, and communications. The executive committee – Walker (Ford), Rapson (Kresge), Ibargüen (Knight) and Noland (CFSEM) – gave overall direction to the effort, including shaping the strategy for negotiating on behalf of the foundations with Judge Rosen and developing the conditions for philanthropy's participation. They also worked to ensure a single voice and message from the foundation community, given the political tensions that surrounded the emergency manager, the bankruptcy declaration, and the consequences for the city pensioners.

The legal team took direction from the executive committee, but also worked to identify options for addressing the array of novel legal issues that the Grand Bargain raised in the context of municipal finance, nonprofit law, and public accountability. It was this group that developed the Foundation for Detroit's Future[27] concept as a mechanism that would implement and manage the agreement between the city, the foundations, and the DIA for the next 20 years.

The communications committee was charged with developing a strategy for ensuring that the Grand Bargain's varied stakeholders – including Detroit's residents – were kept up to date on the status of the deals underway and on their roles, while at the same time honoring the confidentially of the mediation process. This was important given the inherently contentious nature of the municipal bankruptcy and the significant public outrage surrounding the imposition of the emergency manager law in which normal democratic processes were temporarily suspended and creditor's rights were threatened. To diffuse the anger by making a compelling case for the Grand Bargain, the committee focused on the Detroiters, in particular the pensioners, even as it moved to convey the city's investment opportunities through the national press, including the *New York Times* and the *Wall Street Journal*.

The larger foundations, those with considerable expertise in-house, allocated staff to these committees. But given the complexity of the issues, and speed with which the foundations were acting, the group also found a need to hire a limited number of people from outside. This was especially true in the context of municipal finance and law; they needed the outside expertise, and the time those individuals could devote to the process. Foundation staff, after all, had ongoing responsibilities to honor. Ford was willing to underwrite the cost of the outside experts to keep the process moving apace and eliminating the need for additional fundraising. And an anonymous donor funded the administrative costs associated with the implementation of the Grand Bargain through the Foundation for Detroit's Future at the CFSEM.

## SUMMING UP

The foundations involved in the Grand Bargain were able to create their own script for rising to meet the challenge that Rosen presented to them. Remarkably, they did so in a high-pressured environment, outside of their usual practices, fueled by a shared recognition that the future of Detroit was central to all of their values and missions.

Detroit is not exceptional in its vibrant constellation of foundations. Many large cities that have been engines of wealth creation possess a robust philanthropic community. But philanthropy's role in Detroit's Grand Bargain is instructive. Foundations outside of Detroit have much to gain by pursuing an understanding of how funders in Detroit mustered a collective and highly effective response to a crisis situation. The magnitude of the Grand Bargain – and time frame of the deal that was catalyzed by a mix of philanthropic institutions with varying missions, scales, scopes, and cultures – was without precedent.

Key to the foundations' ability to mobilize in this way was their shared narrative of why the city and its future were intrinsically important to them and the work they do. Based on interviews with the foundation presidents that were parties to this agreement, it is clear that the foundations quickly came to understand that the real driver to raise philanthropic funds to catalyze the Grand Bargain was not about the art or the pensions per se, but about the future of Detroit.

Whatever the mission and program priorities, each foundation found a way to see that overarching goal as central to their work: If Detroit failed, all of their efforts to improve programs and neighborhoods, and address issues and causes would be undermined. They not only had a stake in resolving the bankruptcy, but also in restoring a platform for public services that would make possible Detroit's revitalization.

Another crucial enabling factor was the remarkable leadership of Judge Rhodes, the court appointed mediator Judge Rosen, and his colleagues on the

[27] Once the foundations agreed in principle to the Grand Bargain there was the practical matter of implementing the agreement. At the center of these efforts was The Foundation for Detroit's Future (FDF), a 509(a)(3) affiliate of the Community Foundation for Southeast Michigan, that would administer the funds from the foundations and the DIA; make annual payments to Detroit public employee pension funds over the 20-year period; ensure that the city met the conditions outlined in the bankruptcy agreement; and communicate its progress to the foundations and the DIA.

meditation team (in particular Eugene Dricker), and the state appointed emergency manager Kevyn Orr. While these individuals had different roles in the Grand Bargain, they were all committed to resolving the city's bankruptcy in a way that would enable it to emerge with a hopeful future.

In that spirit, Judge Rhodes and Judge Rosen worked together to settle claims against the city consensually. They realized that doing so in a short window was the most promising option. And their strategy focused on resolving the issue of pensions for retired public employees first, since that was the biggest obligation on the city's balance sheet. They believed (rightly) that if they could resolve the pension issue voluntarily, rather than through litigation, they would create the opportunity to settle other claims against the city in a similar fashion, and avoid protracted legal battles.

Their approach was instrumental in giving the philanthropic community the confidence that philanthropy could make the difference. Foundation leaders had little interest in putting up funds if the pension claims could not be resolved, and they did not want to simply preserve the DIA.

Judge Rosen was able to convince them that if they acted with a sense of urgency, they could become the catalyst for resolving the bankruptcy and supporting new economic momentum in the city. Foundation leaders conferred with each other to figure out the degree to which each was leaning toward joining in, and what their level of support might be if they did. Some foundations stepped up early on while others took a bit longer to work it through; nonetheless, the speed at which the foundations agreed jointly that philanthropy would meet the challenge was astounding, even if it took a few more months to iron out the details, and to ensure that their conditions – the state contribution, the DIA commitment, and the pensioners' approval – would materialize.

A view of downtown Detroit and its riverfront from the Detroit River. Photo credit: Steven Kriemadis.

# Lessons for Philanthropy

Darren Walker has noted that the Grand Bargain is "not a template for other cities. But there are many lessons here."[28] In this section, we hone in on the lessons that philanthropy at large can take away from the Grand Bargain, and offer discussion (strategic and process-focused) questions to stimulate conversations among foundation trustees and senior executives, as well as for other leaders with a stake in bold philanthropic leadership.

Four lessons for philanthropy in particular appear to emerge as most prominent:

### 1. THE SUCCESS OF A COLLECTIVE PHILANTHROPIC EFFORT RELIES ON ADAPTIVE AND DISTRIBUTED LEADERSHIP.

The ability of several major players in the philanthropic community to coalesce around the Grand Bargain is testament to leadership that stemmed from many quarters. The Grand Bargain began with the foresight of Governor Snyder to appoint Kevyn Orr as the emergency manager and his work to understand Detroit's finances and articulate a roadmap for revitalization, and the focused and indefatigable leadership from the courts – Judge Rhodes and Judge Rosen and his mediation team. But these efforts would not have been successful without bold philanthropic leadership on the part of the participating foundations – from their boards and from their CEOs and senior staff. And importantly, what was required in this instance was not the leadership of a single foundation or foundation leader, but of the philanthropic community. This group of funders exhibited adaptive and distributed leadership as they seized the opportunity that was presented to them – from envisioning a shared narrative to working through the details of how the agreement would be implemented. No single person provided the leadership, but rather a cadre of individuals played the varied and essential roles needed to get to "Yes."

Several individuals in particular are referenced continually for the ways in which their flexible approach to leadership enabled the group to come together and make decisions that resulted in philanthropy's role in the Grand Bargain. Each played important roles that are more overlapping than mutually exclusive. Noland helped to identify the foundations that would participate, and offered the CFSEM as the host institution for The Foundation for Detroit's Future; Rapson offered his insightful analysis to help the foundations understand the depth of the problem and see the shared vision for the future; Ibargüen provided strategic advice on communications and more; and Walker played an important role in giving all members ownership of the process and was a pivotal voice on the importance of Detroit to the nation. Working together with the executives of all the foundations, they responded to the twists and turns that are inherent in such a high-stakes process of mediation and negotiation, iterating towards the agreement.

With trust and respect, they worked with their colleagues to generate the support that Detroit needed to emerge from crisis, and to construct the guardrails needed to prevent the city from relapse. There was no template to follow; there were no examples to draw from. The foundations had to devise a way forward by working with the emergency

[28] PBS NewsHour, 2014.

manager to ensure that the financials of the city were sound, and by working with the mediation team to make sure that the sums generated (from the foundations, the state and the DIA) would be acceptable first to the retirees and then to Judge Rhodes to resolve the bankruptcy. This process required tremendous analytical and creative design skills, flexibility and adaptability, together with a focus on what would make sense for the city post-bankruptcy.

The leadership that philanthropy exhibited in Detroit is all the more remarkable given the magnitude of the crisis, the speed of their response, and the  extent to which they were able to exact and leverage strengths from a varied group to develop a solution to a problem that had been years in the making. But then again, it is possible that the magnitude and urgency of the crisis catalyzed the necessary flexibility and boldness. The trick for philanthropy in other areas is to be able to summon the courage and flexibility to act boldly in the absence of crisis. What major goal and, under what circumstances, could a variety of stakeholders agree on and connect to achieve?

## 2. ESTABLISHING RELATIONSHIPS AND NETWORKS NOW, PROVIDE THE INFRASTRUCTURE FOR COLLECTIVE ACTION THAT MAY PROVE HIGHLY VALUABLE LATER.

The distributed and adaptive leadership that drove the Grand Bargain was made possible by relationships and networks that had been developing for years. The foundations that were involved in the Grand Bargain knew each other, and some had already engaged in a number of collaborative efforts to help revitalize the city – from the Riverfront Conservancy, to the New Economy Initiative, to a host of arts and place-making strategies. In the process, they had gotten to know and respect each other. This was not a group of strangers, and that fact enabled them to move quickly to the tasks at hand, from getting consensus in the boardrooms to hammering out the structural and operational details of the Foundation for Detroit's Future.

Noland, as the long-serving executive of CFSEM, understood the importance of the relationships among the foundations – both trustees and executives – that had been nurtured for years through various endeavors (if not in direct collaboration, then at least side-by-side for the benefit of Detroit). That knowledge was instrumental in her initial selection of the foundations that were invited to meet with Judge Rosen

But, beyond their connections with each other, the foundations also had established connections with other civic leaders, from the bankruptcy judge and members of the mediation team, to the leaders of the DIA, and to leaders at the state level. A large number of the Grand Bargain foundations' trustees serve on more than one foundation board or on the boards of other civic-minded nonprofits. This web of relationships created a familiarity and set of common bonds that made working towards a common purpose easier and more likely to succeed.

Such networks are important social capital to getting things done without developing the need to build it in short order when crisis hits.

## 3. PHILANTHROPY HAS AN IMPORTANT AND UNIQUE ROLE TO PLAY AS AN ANCHOR IN THE COMMUNITIES IT SERVES.

The relationships and networks that were built in Detroit before the Grand Bargain, and those that have been built after, are all the result of like-minded efforts to create a better place. The set of foundations that drove the Grand Bargain all had a stake in Detroit. The wealth behind their endowments had been created in Detroit and many had a primary focus on the community. Even those foundations that were less Detroit-centric had an established affinity for the city. The common love of a place creates a rallying point that allows varied, diverse parties to find common ground on which to build strategies and take action.

Connections to place are a critical asset in undertaking collective action. Prior ties to a community – and, where possible, the experience of being a community's anchor – proves particularly important when there is a lack of public sector leadership and capacity. Place-based philanthropies can help ensure that the sector will be seen as allies, and not as outsiders. Such philanthropies build the kinds of trust that enable them to extend their reach and contribute to community leadership – often in partnership with leadership from other quarters – to drive actions focused on a hopeful narrative. And, of course, community can be extended beyond place to communities of interest.

The Grand Bargain did not begin with philanthropy. Many of the foundations ultimately involved had been working over the years to make Detroit a better place. But when Judge Rosen called on the philanthropic sector to respond to the crisis, and when Rosen and his team outlined the sector's possible role, the foundations' leaders saw the opportunity before them clearly.[29]

## 4. CRISIS CAN MEAN OPPORTUNITY

The ability of these foundations to act as they did was made possible by the crisis of the moment. Their actions would not have occurred in the normal course of events. But the crisis made it possible for the foundations' executives and their boards to look beyond their strategies and programs and see how actions outside of that realm could still be integral to their core values and missions.

So "a crisis can be an opportunity" is one take-away. But there's another insight imbedded in this one, and that is to try to spot these sorts of large-scale and not-necessarily-intuitive opportunities before crises occur. The challenge for philanthropic leadership, in other words, is to explore the extent to which they are seeking to identify the opportunities for action before the problem reaches crisis stage. Is there an infrastructure for collective action? Can philanthropy come together and can it reach out to partners from other sectors? How can it create permission to think bolder, take more risks, and break free from conventional practices that limit impact?

* * *

The Grand Bargain is not a model to be replicated to bail other cities out of bankruptcy. Instead, it is a story that demonstrates that philanthropy can act boldly and collectively, when it chooses to do so. Philanthropy can rise to the big occasions where there is adaptive and distributed leadership, where various foundations can draw on the networks and relationships they have built in their communities, and where each party is willing to respond outside of traditional roles and conventional practices.

Ultimately, philanthropy is more likely to realize its promise when it takes the long view and when it is willing to act with a sense of urgency and take risks when the need arises—all the while doing so with humility and a willingness to listen.

This action would not have occurred in the normal course of events. The crisis made it possible for foundations leaders – executives and their boards – to think beyond their strategies and programs and to see how such an action was integral to their core values and missions. For some it was not much of a stretch, but for others it was a more circuitous path. What is remarkable is how all of the participating foundations ultimately understood and embraced that their contributions would create a narrative of Detroit's opportunity for the future.

The challenge for philanthropic leadership is to explore the extent to which they are seeking to identify the opportunities for action before the problem reaches crisis stage. Is there an infrastructure for collective action? Can philanthropy come together and can it reach out to partners from other sectors? How can it create permission to think bolder, take more risks, and break free from conventional practices that limit impact?

[29] See: Ferris and Hopkins, 2017.

## QUESTIONS FOR DISCUSSION

As this case illustrates, the series of events that unfolded during Detroit's bankruptcy to create a brighter future were not obvious nor assured at the outset. At critical moments along the way, philanthropy took actions that were bold and risky, and challenged foundation practices. This case and the questions that follow create an opportunity to reflect on how philanthropic leaders might act in similar circumstances.

### *Values*

- What core values does your foundation have that would inform your view of responding to a problem or scenario of grand scale?
- How does your foundation define "place" from a mission or funding perspective? Whether geographically, by issue area, or something else – what are the macro-level "places" about which the foundation cares deeply?
- Are there particular types of crises that would lead your foundation to act outside of your usual guidelines and break with your general practices? What would the nature of those crises be? What would it take to move you outside of your comfort zone?

### *Working Collectively*

- Does your foundation have the reputational capital needed to influence your peers or join in an important philanthropic endeavor and a willingness to use it? If yes, how has it cultivated those relationships and is there more that can be done to invest in building trust and community among your most important colleagues? If not, why not, and what might it take for that to change?

- Does your foundation have connections with other foundations or government or the business community that might catalyze a collective response? Has the foundation cultivated trusting relationships with partners that would enable it to be comfortable following or joining when others lead? Is the foundation more or less comfortable leading versus following? Why is that and what does that say about who your foundation is as an institution?

- Does your board have an understanding of what it takes to work with other foundations, business, and government? What are the risks to work collectively? Are there ways to mitigate those risks?

### *Foundation Decision Making*

- Does your foundation have the kind of partnership between the board and executive that would enable the foundation to act quickly – and outside of its normal way of doing things – if faced with extraordinary circumstances? What aspects of the way in which the board works would serve the foundation well and what would likely get in the way?

- What would it take to build consensus among the board for the foundation to step up to an extraordinary challenge and take unprecedented action? How would your board and executive work to build this consensus and begin to establish parameters for new behaviors?

- How would your foundation undertake the necessary due diligence for unconventional acts? How would it ensure transparency and accountability? How would the board and executive ensure that the foundation's values guide its decisions/actions?

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## GRAND BARGAIN INTERVIEWEES

Critical to the development of this case were in-depth interviews with many of the principals involved in the Grand Bargain. Through these interviews we came to better understand the motivations, challenges, concerns, and context that gave shape to the Grand Bargain and the subsequent resolution of Detroit's bankruptcy.

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