

# An Economist's Consideration of Delaware River Port Authority Funding for a Philadelphia Barnes Foundation facility.

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## **Introduction**

On January 15, 2003, the Delaware River Port Authority (DRPA) authorized a \$500,000 grant for a capital expansion project involving the Barnes Foundation. The focus of the project is removal of the Barnes art collection from its home in Merion, Pennsylvania for the purpose of installing it in a new facility on a site on the Benjamin Franklin Parkway in Philadelphia.

There is a distance of approximately five miles between the 12-acre Merion site and the 4.5 acre Philadelphia site.

Since the approval of the grant funding in 2003, a number of circumstances have changed that impact the Barnes project.

Although the design of the new facility has not been released or approved, plans call for construction to begin in the Fall of 2009, some six-and-a-half years after authorization of the DRPA grant.

There is no available evidence that established economic criteria have been employed to assess the project's desirability by any of the parties involved. This Statement focuses on the importance of the DRPA applying its own Guidelines on the Economic Impact of the move before awarding the \$500,000 DRPA grant for the Barnes project.

## **Background**

Both Merion and Philadelphia are geographically situated within the jurisdiction of the Delaware River Port Authority; they both lie in what is commonly known as the Greater Philadelphia Region. A map of the area including both sites is attached.

Permission for the proposed dismantling of the Barnes art collection was granted in 2004 by Montgomery County Orphan's Court. A review of a broad spectrum of professional literature indicates that the proposed plan to dismantle the Barnes Foundation's Merion site remains a highly controversial topic in the national and international art, art law, trust law, public policy, and cultural heritage communities.

A citizens' advocacy group that leads the organized opposition to the plan to dismantle the Barnes Foundation is called Friends of the Barnes Foundation (The Friends). The Friends have asked that I review the proposed award of public funds by the DRPA, and opine on whether the planned expenditure of public funds by DRPA meets established economic criteria for funding regional projects.

The enclosed *curriculum vitae* contains my qualifications as an economist. Should I be unable to present my Statement in person, a notarized copy will be forwarded to the Delaware River Port Authority.

## **Overview**

This Statement will describe some of the economic impact policy issues raised by the allocation of \$500,000 by the DRPA for the proposed relocation of the Barnes from Merion to Philadelphia. The following information was available for use in preparing this Statement: Summary Statement of the DRPA Commissioners Meeting of January 15, 2003 and The DRPA Economic Development Grant Guidelines. Copies of these documents are attached for reference.

## **Economic Impact**

- The DRPA is a regional governmental agency, which allocates limited public resources among competing Economic Development Projects, which it is asked to support. To ensure that the decision it reaches is rational and objective, it is essential that the DRPA evaluate the Barnes project by applying its own Economic Impact Criteria as set forth in its Guidelines.
- To date, no evidence has been presented that the \$500,000 grant approved by the DRPA Commissioners was based on a study using the DRPA Economic Impact Criteria. The Summary Statement referenced above indicates that the DRPA relied upon endorsement of the Barnes plan by third parties, whose objectives and criteria may differ from those of the DRPA.
- The need to apply objective economic criteria is especially important in this case since the current location of the Barnes and the proposed new location are both in the same region within the jurisdiction of the DRPA.
- Therefore, in applying its Economic Impact criteria, the DRPA should consider the impact on both a Philadelphia Barnes as well as the impact on the Merion Barnes. In particular, the DRPA's study needs to determine the net impact of the relocation on the region's economy. For example, if a Philadelphia Barnes will generate 40 new, permanent jobs and the Merion Barnes will lose 28 existing jobs, the net benefit of the Philadelphia Barnes is only 12 jobs. When the net effect on job creation is measured in the context of the lump sum investment required for the relocation, it is likely that the overall cost of creating the new jobs is significantly higher than otherwise assumed.
- Placement of the Barnes among other established cultural institutions may cause a shift in attendance with minimal or no accompanying net gain in overall regional visitation. Therefore, projections should be undertaken of the effect of a Philadelphia Barnes on total visitation, total enrollment in art education programs, and total philanthropic support in regional institutions, such as the Philadelphia Museum of Art. This function needs to be undertaken if the DRPA is to meet its mandate of allocating scarce financial resources objectively.
- The study should specifically measure the net impact of the relocation on tourist-related industries, in particular, hotel stays and restaurants. It is likely that the hotels and restaurants that would serve visitors to a Philadelphia Barnes would mostly be the same as those that would serve visitors to the Merion Barnes since there are no tourist facilities in Merion. If this is determined to be the case, tourism to the area can be increased by a relatively modest investment in professional marketing and promotion programs for the Merion Barnes without undertaking the enormous investment contemplated for the relocation of the Barnes to Philadelphia.

- Ultimately, once the regional benefits of relocation are properly calculated, the question that needs to be asked is: Can the perceived benefits be attained at the Merion location at a lower net cost to the public. For example, if tourism at the new location is expected to increase to 150,000 visitors annually for a lump sum investment of, say, \$150,000,000 and the tourism at the existing location can increase to 140,000 visitors annually for only a fraction of this investment, the net Economic Impact of the relocation is clearly uneconomical.

### **Summary and Conclusions**

The DRPA needs to apply established, scientific, objective criteria to the Barnes project before it approves financial support for the relocation. This is all the more necessary because of the intense competition for funding among existing regional institutions for potentially worthwhile projects.

The responsibility of DRPA in this instance is heightened since the Barnes at the Merion location is a treasured cultural and historical monument that is eligible for National Historic Landmark status.

Alternatives to the current plan for dismantling the existing Barnes, likely at substantially lower cost, need to be seriously explored.

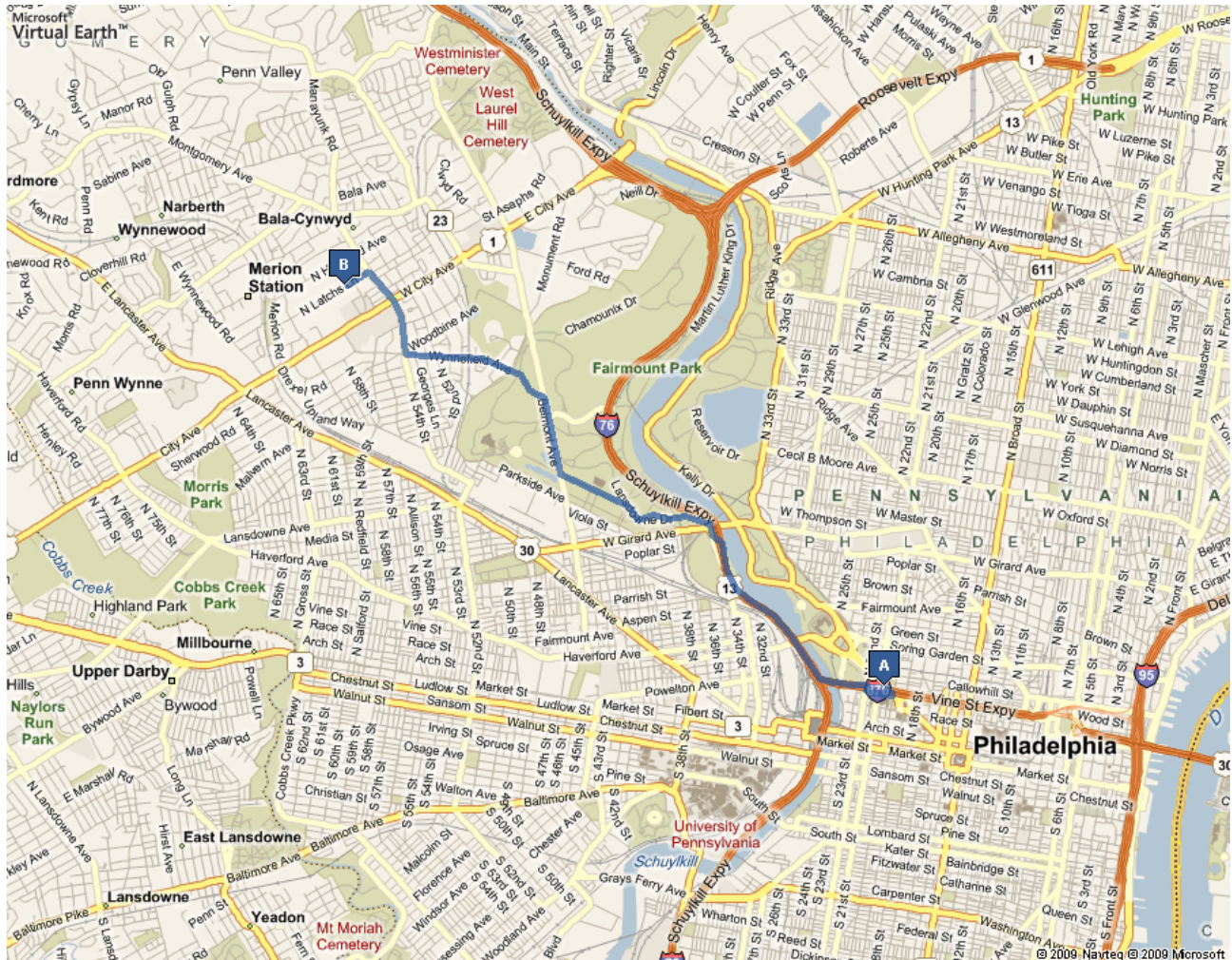
We recognize that in 2003, the DRPA Commissioners who approved the \$500,000 grant might not have been aware of the controversy, risks, and multi-institutional impacts of the Philadelphia Barnes project.

At present, however, the highly controversial aspects of the project are widely recognized, while many questions about net economic impact remain unanswered.

An overarching question for the DRPA Commissioners must therefore be whether it is appropriate for the DRPA, as a public agency committed to the economic development of the region, to support a project that requires a choice between two cultural assets within the same region.

## From Live Search Maps

Map showing the locations of the Barnes Foundation in Merion, Pennsylvania and the proposed site of a Philadelphia Barnes facility at 21<sup>st</sup> Street and the Benjamin Franklin Parkway in Philadelphia. Both locations lie within the jurisdiction of the Delaware River Port Authority.



The distance between the Barnes Foundation in Merion and the proposed site for the Philadelphia Barnes facility is reported to be 5.3 miles.

Travel time is estimated at 12 minutes via the Expressway and 15 minutes via the route along the Schuylkill River and through Philadelphia's Fairmount Park.

# Delaware River Port Authority Grant Awards Criteria

(from the Greater Philadelphia Cultural Alliance Website: <http://www.philaculture.org/beta/grants/crit.htm>)

## Who Is Eligible For Grant Awards?

Applicants for DRPA Cultural Economic Development Grants must:

- Be based and chartered in Bucks, Chester, Delaware, Montgomery, or Philadelphia county in Pennsylvania as a nonprofit organization; be exempt from federal income tax under Section 501(c)(3) or 501(c)(4) or 509(a) of the Internal Revenue Code; and/or be eligible to receive donations allowable as charitable contributions under Section 170(c) of the Internal Revenue Code of 1954, as amended;
- Have established tax-exempt, non-profit status with the IRS, as evidenced with IRS letter of incorporation;
- Have a board of directors that meets at least quarterly;
- Have the promotion, production, and/or teaching of the arts and/or culture and/or tourism as their primary purpose as outlined in their charter, incorporation papers, bylaws, and IRS letter of exemption from federal taxes; and,
- Have evidence of additional financial support and funding sources for the proposed project.

In addition, please note the following restrictions:

- Applications through fiscal agents will not be accepted.
- Delaware River Port Authority and Greater Philadelphia Cultural Alliance Conflict of Interest Policies will be followed.

Organizations who do not meet guideline criteria are encouraged to consider an application to the 5-County Arts Fund, a separate granting program of the Cultural Alliance, with funds provided by DRPA and the Pennsylvania Council on the Arts.

## Evaluation Criteria

### I. Economic Impact and Development

The economic impact on the region, as evidenced by one or more of the following measures, will be considered:

- Elevates the regional economy through projects and programs that attract businesses, create or retain jobs, restore the infrastructure, and/or increase the overall well-being of the Greater Philadelphia region;
- Creates a regional identity/image of quality and creativity to attract and retain companies, residents, employees and visitors, through the development of strategic marketing promotions, capital campaigns, expanded programming and/or educational venues;
- Supports tourism;
- Provides venues and opportunities for business development;

- Creates employment opportunities;
- Creates permanent infrastructure and improvements through capital investments;
- Demonstrates collaborative efforts among various organizations to promote the regional economy. Examples include joint marketing efforts, shared resources, etc. (one organization must serve as the lead applicant in this case);
- Cultivates the region's reputation as a world-class tourist destination; or,
- Leverages private sector support in conjunction with DRPA funds;

**Projects with the following intended outcomes will also receive consideration:**

- Targets projects and programs that work in conjunction with DRPA's efforts to rebuild and revitalize the waterfront along the Delaware River and the Port District (Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania); or,
- Increases public awareness of the significance of the Delaware River Waterfront and the Port District to our communities, and the value of associated activities including the ports, DRPA facilities, and historic, artistic, cultural, educational, and environmental efforts.

**II. Management**

Sound financial and operational planning and development, as evidenced by the following, are key factors in making the funding determination:

- Budget presents a realistic picture of the expenses and income needed to accomplish the organization's programs;
- Variety of funding sources that demonstrate broad-based support;
- A specific plan to evaluate the economic impact of the proposed project;
- Evidence indicating the ability of the organization to plan and carry out its proposed programs;
- Stable financial position of the organization;
- Evidence of organizational program evaluation and subsequent plans for improvement;
- Active board committee(s)/chair(s); and,
- Compliance with DRPA contract regulations and grant application guidelines.

**III. Applicant Product/Process/Services**

A strong record of past cultural achievement and attention to the region's artistic and cultural needs, as evidenced by the following measures, will be considered:

- The organization's activities are innovative and consistent with its mission;
- Quality of leadership, activities, and tourism development;
- Diversity of artists and types of arts activities (arts organizations only);
- Accessibility for people with disabilities



information center, and an education facility. DRPA has been asked to provide \$500,000 toward capital costs associated with the project. To date, WHYI has raised \$4 million, \$2.5 million of which has been awarded as a grant from the Commonwealth of Pennsylvania through its Redevelopment Assistance Program.

The Barnes Foundation (“Barnes”), a world-renowned institution established to promote the advancement of education and the appreciation of the fine arts, seeks to move its \$30 billion collection of artwork from its present location in Lower Merion, Pennsylvania to the Benjamin Franklin Parkway in Center City Philadelphia. Endowment funds originally provided by Dr. Barnes have been nearly depleted and Barnes’ fundraising capabilities have been significantly hindered due to zoning restrictions imposed by Lower Merion which limit the number of daily visitors Barnes may accommodate.

This \$150 million undertaking, consisting of \$100 million in capital costs and \$50 million in endowment funds, would serve to bolster Philadelphia Tourism. The move has been endorsed by regional arts and business communities and is strongly supported by the Greater Philadelphia Tourism and Marketing Corporation (GPTMC). DRPA has been asked to provide grant funding in the amount of \$500,000 in furtherance of the capital portion of this monumental project. Other participants include The Pew Charitable Trusts, the Lenfest and Annenberg Foundations, and Comcast Corporation. Receipt of DRPA funds would be conditioned upon the Barnes Foundation’s actual relocation to Center City Philadelphia.

For more than 35 years the Freedom Theatre has been recognized for outstanding theater productions. It is the largest African American Theatre and Performing Arts Training Program in the nation, thousands of people have attended its repertory productions and more than 10,000 young people have participated in the training program. The New Freedom Theatre has requested \$500,000 from the DRPA to assist them with the implementation of its five-year business plan to sustain and grow its operations and to further promote Philadelphia as a world-class tourist destination, creating employment opportunities for residents and providing venues and opportunities for business development in and around the Freedom Theatre neighborhood. The DRPA contribution and disbursement of funds is expressly conditioned on the Freedom Theatre securing binding commitments and/or funding from public and private sources to eliminate its outstanding debt and



past due accounts payable.

The Community College of Philadelphia is a two-year, urban, comprehensive college, providing accessible, low-cost higher education to residents of Philadelphia. It is currently ranked as the largest institution of higher learning in the Philadelphia area. DRPA has been asked to provide \$100,000 toward the incorporation of a wireless classroom educational system at the College's new Center for Business and Industry which is set to open in January 2003. The provision of a Mobile Wireless Class will enhance the educational experience of all training program participants, and provide opportunities for these participants to experience first-hand state-of-the-art technology, thus better preparing them for the workforce.

These projects foster DRPA's commitment to regional arts, culture and workforce development. By bringing new resources and offering programs unavailable to other cities throughout the United States, WHYY, the Barnes Foundation, the New Freedom Theatre, and the Community College of Philadelphia seek to establish the region as a thriving metropolis for both business and individual opportunity and serve to bolster the Philadelphia region's national prominence as a cultural and educational center.

<b>SUMMARY: Amount:</b>	<b>\$1,600,000</b>
<b>Source of Funds:</b>	<b>1999 PDP Bonds</b>
<b>Capital Project #:</b>	<b>N/A</b>
<b>Operating Budget:</b>	<b>N/A</b>
<b>Master Plan Status:</b>	<b>Subject to inclusion in 2002</b>
<b>Other Fund Sources:</b>	<b>N/A</b>
<b>Duration of Contract:</b>	<b>N/A</b>
<b>Other Parties Involved:</b>	<b>Commonwealth of Pennsylvania, Pew Charitable Trusts, the Lenfest and Annenberg Foundations, Comcast Corporation, City of Philadelphia, PNC Bank</b>

**DRPA-03-006**  
**Projects Committee: January 15, 2003**  
**Board: January 15, 2003**  
**Philadelphia Education, Arts, Tourism and Cultural Institutions**  
**–Capital Projects**

**RESOLUTION**

**RESOLVED:** That the Board authorizes funding not to exceed \$1,600,000 to support Education, Tourism, Arts, and Culture initiatives of WHY Y (\$500,000), The Barnes Foundation (\$500,000), The New Freedom Theatre (\$500,000), and The Community College of Philadelphia (\$100,000); and be it further

**RESOLVED:** That staff be and hereby is authorized to negotiate appropriate agreements with WHY Y, The Barnes Foundation, The New Freedom Theatre, and The Community College of Philadelphia and other relevant parties; and be it further

**RESOLVED:** The Chair or the Chief Executive Officer must approve all necessary agreements, contracts, or other documents on behalf of the DRPA prior to execution. If such agreements, contracts, or other documents have been approved by the Chair and if thereafter the Chair is absent or unavailable, the Chief Executive Officer may execute the said document(s) on behalf of the DRPA.

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Position

Principal; M. Marcus, Ph.D.  
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Academic Education

B.A., Brooklyn College, 1959  
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Ph.D., Brown University, 1963 (Economics)

Post-Doctoral, University of Pennsylvania  
(Regional Economics)

Fellowship Awards

Ford Foundation Doctoral Fellowship  
National Science Foundation Post-Doctoral Fellowship

Publications in Economics and Finance

The Review of Economics and Statistics  
The Journal of the American Institute of Planners  
Land Economics  
The Journal of Industrial Economics  
The Journal of Portfolio Management  
The Canadian Journal of Economics  
The Southern Economic Journal  
The Antitrust Bulletin  
Bulletin of the Oxford University Institute  
Public Utilities Fortnightly  
Journal of Behavioral Economics  
Financial Review  
Journal of Retailing  
Journal of Finance  
Research in Finance  
The International Journal of Finance

Professional Affiliations

American Economic Association  
American Association of University Professors

Consulting Experience

Prepared reports dealing with the appraisal of economic loss for both plaintiffs and defendants and have testified in court on such matters.  
Conducted cost of capital studies involving electric, telephone, gas, and water utilities.  
Consultant for various public and private organizations.