

**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

DATE : May 7, 2013

TO : Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors

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SUBJECT: Milwaukee Public Museum (For Information Only) – Workgroup Analysis

REPORT OVERVIEW

At its January 31, 2013 meeting, the Committee on Finance, Personnel and Audit was briefed on the potential cash flow issues which would result should the Milwaukee Public Museum, Inc. ("MPM") be required to make the required pension payment due in September of 2013. The committee was also briefed on the discussions occurring between MPM and Milwaukee County staff regarding options to deal with the short-term cash flow issues and long-term sustainability of MPM.

This report is an informational update of the current proposals to help ensure the financial success of MPM. If feedback from policymakers is supportive, it is anticipated that a final agreement would be presented to the County Board for approval during the June cycle. The Workgroup is still discussing various issues but a list of tentative proposals is included at the conclusion of this report.

HISTORICAL BACKGROUND

In March of 1992, Milwaukee County entered into a lease and management agreement with MPM under which MPM assumed the primary responsibility for management and operation of the Museum. The County retained ownership of the buildings and the artifact collection. The original term of the lease was from March 31, 1992 until March 31, 1997 with nine successive renewal periods of five years subject to termination clauses. The base level of County operating support for MPM was \$4.3 million per year in the original lease. The current lease agreement period expires on December 31, 2017 with four additional terms of five years and one of two years that stretches the agreement through 2039. The current County funding commitment is \$3.5 million annually through 2017.

MPM Pension Plan for Former County Employees

In addition to the lease agreement, an agreement pertaining to employees was also executed on March 31, 1992. In 1992, the Museum was a department of Milwaukee County, and the employees of the museum were County employees covered by

Milwaukee County labor contracts and benefits. The 1992 agreement with MPM allowed for affected employees who, at that time, were County employees and members and potential members of the Employees' Retirement System (ERS) to be offered positions by the MPM in connection with the execution of the lease. Any employee who accepted a position became an employee of MPM. Upon becoming MPM employees, they were no longer members of the ERS and began to participate in the MPM sponsored pension plan that was created in 1992. The MPM pension plan was to mirror the County ERS benefits that existed at the date of transition in 1992. However, the pension costs of MPM differed, depending if the employee was vested in the County ERS plan, or not. In 1992, vesting occurred in the County ERS pension plan after an employee had ten full years of service.

- For vested Milwaukee County employees, who transferred to MPM at the transition date, the County was responsible for the pension liability for all service credit earned while at the County. MPM became responsible for all future service credit pension costs for these vested transfer employees, while at MPM. The County was responsible for the costs while a County employee, and MPM was responsible for the costs while a MPM employee.
- For non-vested Milwaukee County employees, who transferred to MPM, MPM was responsible for pension costs for all service credit earned both at the County and all future service credit earned at MPM. No payment was made to MPM by the County for the prior service credit earned while County employees.

Only former Milwaukee County employees who are in the MPM plan under discussion in this report. Employees who subsequently joined MPM are not members of the MPM pension plan that exists solely for former County employees.

There were approximately 53 individuals who transferred from County employment and ERS membership to MPM employment and the MPM plan in 1992. Of those 53, 11 are still active employees of MPM. The actuary report requires MPM to make a pension payment of \$640,523 by September 2013. The payment is made up of \$180,000 in normal costs and \$460,000 from the unfunded liability. The 2010, 2011 and 2012 required pension payments were \$402,463, \$399,092, and \$667,325, respectively. MPM has successfully made the prior annual pension payments, but has not yet made the 2013 required contribution which is due in the fall.

The MPM pension plan is subject to IRS rules for funding purposes which require a lower rate of return assumption than the County ERS plan. The County ERS plan is not subject to the same IRS rules. The County ERS plan currently uses a rate of return of 8.0%. The MPM pension plan for former County employees requires a rate of return of 6.2%, which will drop to 5.0% in the next two years. The lower interest rates will require higher pension contributions from MPM, which will put a strain on maintaining a positive bottom line.

The County has requested MPM to engage their actuary to provide estimates of future pension contributions, and unfunded liability based on these changes in discount rates. In addition, the MPM pension actuary will also determine the cost to fully fund the MPM

pension plan for former County employees, so as to eliminate future MPM contributions to the plan.

2004 MPM loss and recovery

In May 2005, it was reported that MPM would end the 2004 fiscal year with a deficit of approximately \$4.1 million and was facing another large shortfall for 2005. A Workgroup was formed that eventually led to a financial recovery plan for MPM that included private donation pledges, a working capital loan of up to \$6 million guaranteed by the County, capital infrastructure and annual operating support guarantees and a favorable restructuring of existing debt by the banks holding the loans. Since that time, MPM has successfully repaid the working capital loan without requiring the County guarantee to be called, significantly reduced its outstanding long-term debt through bank write-offs and repayments, invigorated its capital donor campaigns and reduced its expenses to better match annual revenues.

2012 Financial Results and Current Financial Issues

Despite these positive steps, MPM still has financial difficulties that threaten its existence as a viable ongoing entity. The audited financial statements as of August 31, 2012, showed a \$3.5 million total loss. The loss included a \$2.7 million non-cash increase in long-term pension and health care benefits for former County employees, who transitioned to the Museum in 1992. Current regulations require the Museum to report these liabilities, but do not require a cash contribution. The remaining loss was due to the attendance for the Cleopatra exhibit being well below expectations. These revelations were shared with the County and a Workgroup was formed to develop recommendations to help ensure MPM's viability as a regional cultural destination that is supported by visitors and public and private donations. From these meetings, the Museum delineated a list of financial issues it would face in the coming year that it had to resolve to remain viable. This list included funding for the MPM pension plan for former county employees.

MEETINGS ON A SOLUTION

The Workgroup recommended and the Committee on Finance, Personnel and Audit approved a \$100,000 appropriation transfer from the Appropriation for Contingencies (Org. Unit 1945) to provide for actuarial and legal analysis, as needed, of any possible agreement with MPM at its March 14, 2013 meeting. As of this report, no funds have been expended for this purpose.

The County and MPM have requested the MPM actuary to provide some analysis of various options for funding the MPM pension plan for former county employees.

At the April 16, 2013, meeting of the Committee on Parks, Energy and Environment, members from MPM testified that senior managers at MPM have agreed to take furlough hours in 2013 to assist MPM in meeting its bottom line for 2013. MPM has indicated that additional reductions to operating expenses may be necessary to ensure the sustainability of MPM for this and future years.

The Comptroller and representatives from the County Board, Corporation Counsel and the Department of Administrative Services attended numerous meetings with MPM and reviewed a variety of options.

MPM BUILDING AND CAPITAL IMPROVEMENTS PROJECT ISSUES

The building and artifact collections of MPM continue to be the property of Milwaukee County. MPM estimates of the deferred building maintenance costs are approximately \$30 million. As a part of the discussions, transfer of ownership of the building was raised as MPM seeks to fundraise for elimination of existing debt of \$4.5 million and to finance future building needs. MPM is not currently in a financial position to assume the maintenance and upkeep of the building as it stands. MPM is seeking additional capital improvement funds from Milwaukee County in order to have the building in a condition in which it could be transferred to the MPM without significant outstanding deferred maintenance needs that would add to the fiscal burden of MPM. Discussions have focused on a future commitment from Milwaukee County during 2014-2017 for the MPM facility with discussions resuming on the transfer of the building in 2017 if conditions permit and policymakers later approve. The total combined capital commitment would not exceed \$5 million over the course of the four years.

LEASE AND MANAGEMENT AGREEMENT REQUESTED CHANGES

In addition, discussions on several revisions proposed to the Lease and Management Agreement by MPM have occurred. A number of the revisions relate to the items discussed above but MPM is requesting additional changes be included in a new agreement. These additional changes have yet to be fully vetted by staff and will be the focus of ongoing discussions with MPM through May. It is anticipated that these changes will be brought to the County Board during the June 2013 committee cycle for approval.

TENTATIVE PROPOSAL

The following is an initial list of proposals that would be included in a formal agreement between the MPM and the County. In June, a formal agreement and resolution will be submitted by the Workgroup to the policymakers for their approval.

1. Milwaukee County will provide a contribution toward funding the defined benefit plan assets of the MPM Pension Plan for former Milwaukee County Employees prior to August 31, 2013. The goal of the contribution would be to decrease or eliminate the annual costs for this MPM pension plan for former County employees, thereby reducing the annual operating costs for MPM. An actuarial analysis has been requested.

2. MPM will look to obtain donor commitments for the elimination of MPM's existing bank debt. As stated above, the Museum has outstanding debt of \$4.5 million attributed to losses it incurred in 2004 and 2005. The MPM's total debt as of 2007 was \$18.6 million in debt payable and \$2.7 million in a line of credit. The County had guaranteed up to \$6.0 million of that debt. Presently, the outstanding balance is \$4.5 million. The reduction was due to contributions and bank restructuring of the debt. In return for the County funding the MPM pension plan for former County employees, the County would require MPM to seek donations to significantly reduce the remaining outstanding debt of MPM. The goal is to reduce the annual operating costs of MPM, by reducing debt service costs.
3. Milwaukee County will extend the commitment for annual support funding to MPM through December 31, 2022; thereby continuing the current operating commitment for several years. This continuing commitment may require that MPM maintain a certain level of operating results. The current MPM payment support is \$3,502,376.
4. MPM retiree medical obligations for former Milwaukee County employees will remain the responsibility of MPM. County employees, who transferred to MPM in 1992, were allowed to continue their post-retirement health care benefits under contract with MPM. County employees became vested in this benefit after 15 years of service. Employees who transferred to MPM, who were not vested in the benefit, were able to earn the benefit through additional services years with MPM. MPM is currently paying the retiree health costs of these non-vested transfers. Under the proposal, MPM would continue to be responsible for these retiree health benefits.
5. Milwaukee County will provide a commitment from 2014-2017 in capital project funding within the County Capital Improvement Budget to address identified deferred maintenance projects related to the museum facility. Total commitment over the four years will not exceed \$5 million for the entire period.
6. Parties will consider the transfer of the museum facility ownership from Milwaukee County to MPM in the future. Discussions surrounding the County transferring the building to MPM cannot take place until the County has a better understanding of its overall deferred maintenance on this facility and others. Therefore, this discussion is deferred for several years.
7. The Workgroup will recommend changes to the Lease and Management Agreement that combined with the proposals noted above, would further stabilize to the annual operating results of MPM. In addition, MPM will also recommend changes to the Lease and Management agreement that they believe will provide financial sustainability for the future.