

**COUNTY OF MILWAUKEE**  
**INTEROFFICE COMMUNICATION**

**DATE:** March 4, 2022

**TO:** Marcelia Nicholson, Chairwoman, Milwaukee County Board of Supervisors

**FROM:** Aaron Hertzberg, Director, Department of Administrative Services

**SUBJECT:** **Authorization to negotiate and enter into agreements and submit future resolutions for the issuance of not-to-exceed amount of Forty-Five Million Dollars in general obligation bonds or notes for the relocation of the Milwaukee Public Museum,**

**FILE TYPE:** Action Report

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**REQUEST**

Action report (i) to authorize the County Executive, Comptroller, County Clerk, Corporation Counsel, Department of Administrative Services, and any other Milwaukee County officials deemed necessary, to negotiate, prepare, execute, and record any and all documents and instruments (“Definitive Agreements”), and to perform all actions necessary or convenient to complete the transactions with MPM and other entities as needed, contemplated in the attached term sheet; and (ii) to direct the Comptroller to submit authorizing and parameter resolutions to the County Board for the issuance of a not to exceed amount of Forty-Five Million Dollars (\$45,000,000) in general obligation bonds or notes in accordance with the term sheet and memorialized in the Definitive Agreements.

**POLICY**

Wisconsin State Statutes: Chapter 59.56  
Milwaukee County Code of Ordinances: Chapter 89, Section 32.88

**BACKGROUND**

On August 15, 2013, Milwaukee County (“County”) entered into a Lease and Management Agreement (“Agreement”) with the Milwaukee Public Museum, Inc. (“MPM”) whereby the County would own the current museum building at 800 West Wells Street and all of the artifacts, exhibits, and other items of historical or scientific value or significance owned or held by the County and used or intended to be used for exhibition, display, education or research in connection with the activities and operations of the museum and the County would lease the current building, the personal property, and the artifacts to MPM, and MPM would undertake the primary responsibility for managing and operating the museum.

The initial term of the agreement is through December 31, 2022 and can be automatically extended for four (4) successive periods of five (5) years each through December 31, 2042.

Related File Nos:

File 13-598 – Action Report – Authorization to Execute a Lease and Management Agreement with MPM

File 16-180 – Action Report – Authorization to Execute a revised Collections Policy, pursuant to Section 5.5 of the Lease and Management Agreement between Milwaukee County and MPM

File 21-259 – Action Report – Authorization to Execute a Revised Milwaukee Public Museum Collections Policy

File 21-606 - Action Report - Authorization and Direction of a Transfer of \$93,500 from ORG. UNIT 1940-1945 - Appropriation Contingencies to ORG. UNIT 9711 - Milwaukee Public Museum for the Purposes of Protecting the Most Vulnerable Collections

File 21-1086 – Informational Report – Proposed Relocation of Milwaukee Public Museum

### **DUE DILIGENCE**

As required by Milwaukee County Code of Ordinances Section 32.88, attached hereto as Item 1 is the Due Diligence Report.

### **TERM SHEET**

The County and MPM have negotiated the attached Term Sheet, attached as Item 2, which lays out the foundation for a new funding and management agreement (“FMA”). The FMA will outline the terms and conditions for Milwaukee County’s financial commitments to MPM. This will include capital commitments for construction of a new Public Museum, on-going operational support and ensure appropriate stewardship of Milwaukee County’s collections.

### **MPM FUNDING PROPOSAL**

MPM has submitted the attached proposal, attached as Item 2, which sets forth their request for funding by Milwaukee County in support of the public museum relocation.

### **OPERATIONAL & CAPITAL SUPPORT**

Through the current Agreement, the County agreed to reimburse MPM \$3,500,000 per year in support of the operation of the Museum from the commencement of the Agreement through at least 2022 unless a number of performance criteria were not met, whereby the funding amount would be decreased by \$250,000 annually thereafter. MPM has requested to extend the term of the current Agreement, at the current contribution rate of \$3,500,000, until such time as the new facility is open.

With the County’s capital support of \$45M, MPM’s need for annual operational support in the future facility will decrease to \$1,000,000 thereafter. This annual support will ensure the care of the four million objects and specimens in the County’s collections. The bond payback may overlap with the continued Base Level Funding through 2026.

Funding burden on the County is greatest in the early years. But if an offset is considered relative to the need to perform future significant capital projects,

These amounts are based on an assumption that MPM will not return to the County for additional

operational support and capital contributions relative to the new building.

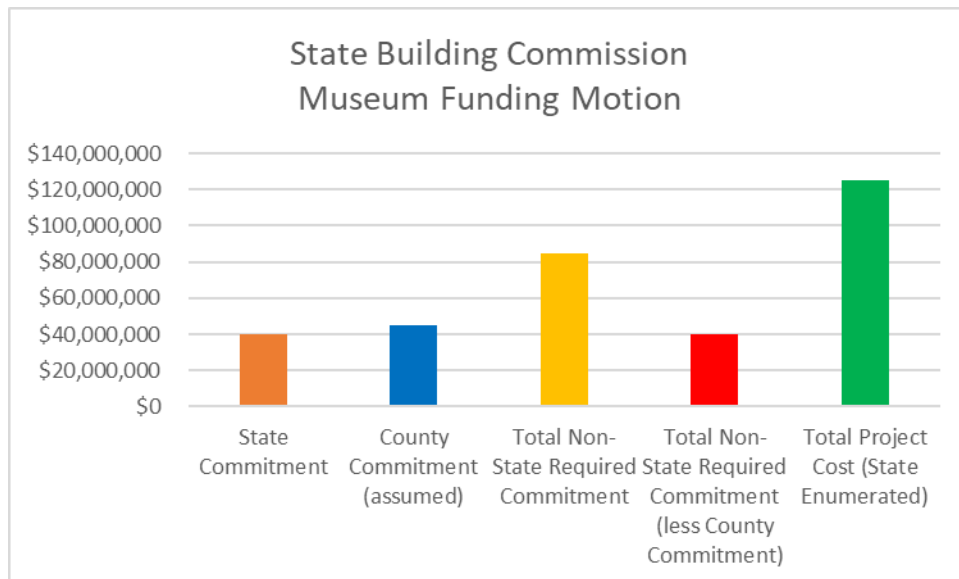
### **CAPITAL SUPPORT**

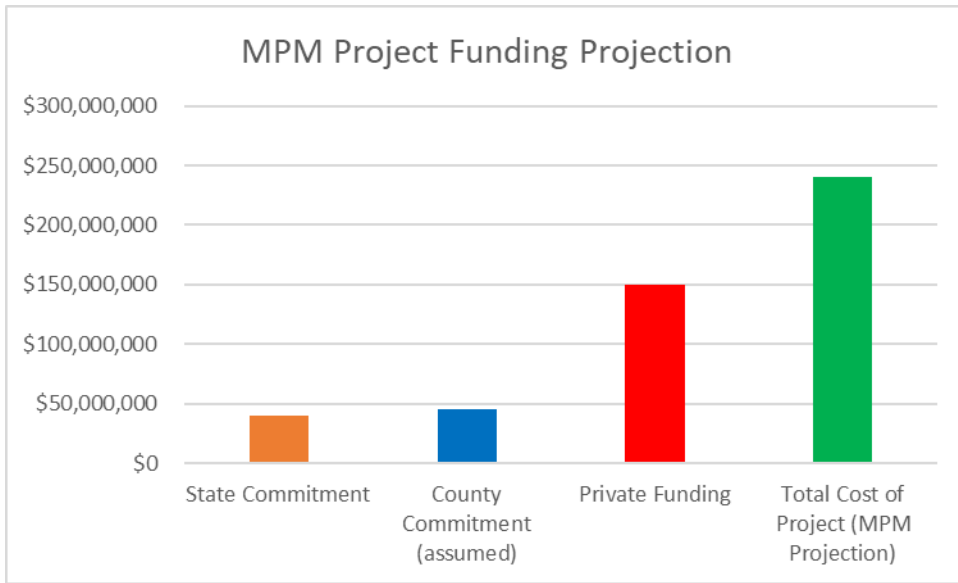
In addition, MPM has identified the need for additional County capital financial support in order to achieve its public funding goals. The museum is requesting a \$45,000,000 capital contribution. This approach would impact the County’s self-imposed bonding limit. The County has the ability to increase its tax levy to account for an increase in debt service. Any bond financed activities require the review and approval by the Comptroller’s office.

The museum proposes that the County’s support would be applied to bond eligible capital-only project expenses, subject to review and approval by the Comptroller.

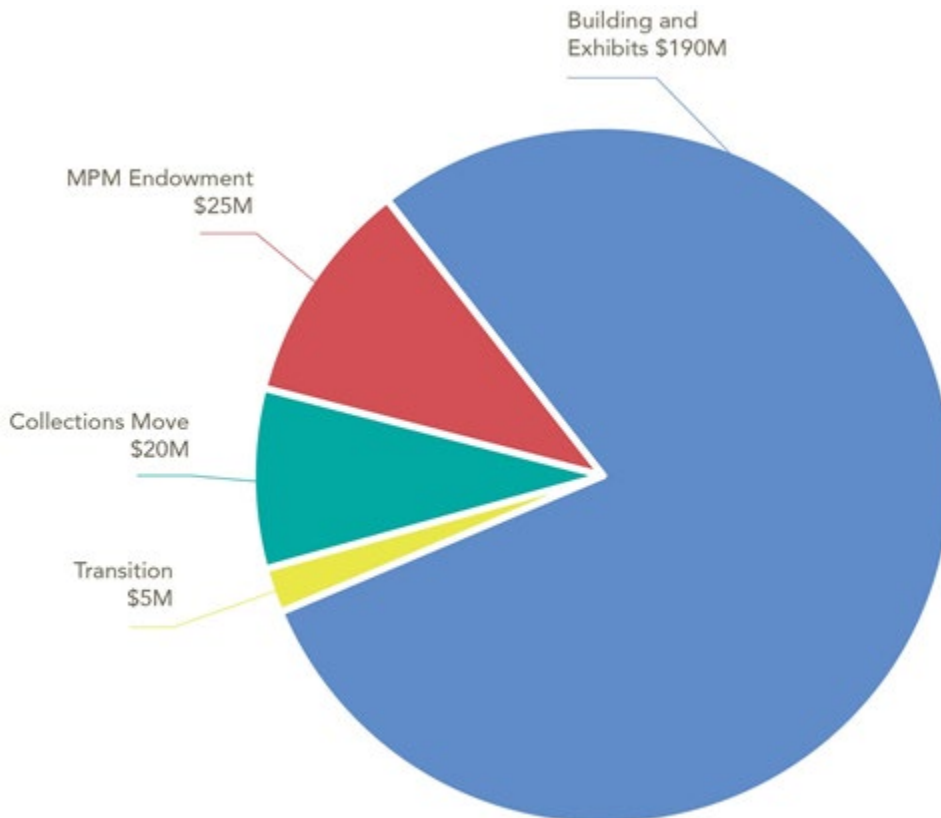
### **FISCAL EFFECT**

State Finance Committee has allocated \$40,000,000 in general fund support for the project budget. The State’s allocation is subject to certain conditions that MPM must meet. This includes proof that at least \$85,000,000 from non-state revenue sources have been secured; that the state retains ownership in the space equal to the state’s grant if, for any reason, the space is not used as a museum of nature and culture; and that the state DOA has reviewed and approved plans for the project. MPM has requested an aggregate of \$45,000,000 to be committed by the County, which will serve as match to the state funds and catalyze the capital campaign.





Within the State Building Commission Museum Funding Motion, it is noted that the enumerated project cost is \$125,000,000. This is a difference of \$115,000,000 to MPM's total projected cost of \$240,000,000. The State's cost is derived from the costs to design and construct the MPM portion of the building and does not include the exhibits, Betty Brinn's part of the building, the collections move, the transition (campaign and project management) or the endowment fund. All costs, which were based on an assessment conducted by museum consultant Gallagher and Associates, are further detailed in the following table:



With the state funding in place, MPM estimates they will still need to raise \$150,000,000 in private donor commitments. As of October 2021, \$12.2M has been raised, in addition to the \$2.5M raised in planning funds (not part of the campaign total). Knowing that a capital campaign was likely on the horizon, MPM conducted an assessment of its fundraising capabilities in 2018. This study recommended a series of steps the museum should take to build its capacity to conduct a campaign of this magnitude. MPM implemented those recommendations and saw significant year-over-year growth in its Annual Fund, an important base for a successful campaign.

The museum then conducted a feasibility study to test a \$150M campaign. The report concluded that the campaign could succeed if the project is a public-private partnership and donors were assured public funding would be committed to the project. Other highlights of the report included that colocation with Betty Brinn strengthens the museum's campaign case, and that the museum is in a position to take advantage of its statewide reach and expand the geography of the campaign to beyond SE Wisconsin. One of the campaign co-chairs resides in Fox Valley.

The feasibility study also noted some challenges that the museum will need to overcome to be successful in raising \$150M, including the readiness of major gift donors and that top-tier donors have not considered MPM a top philanthropic priority given its history as a government department. To date, \$12.4M has been raised towards the campaign, which has not yet launched publicly. Two of the gifts are among the largest ever given by the donor. As of October, more than \$27M in solicitations are pending.

### **ACCREDITATION & EXISTING BUILDING**

One of the several drivers to this relocation project is to secure the museum's accreditation. Without accreditation, MPM risks losing federal grants, traveling exhibits, research opportunities, adjuncts, and the ability to teach museum studies for Wisconsin universities. In the past ten years, MPM has been directly awarded \$886,128 from the National Science Foundation, Institute for Library and Science Services and the National Endowment for the Humanities. In the past five years, that number is \$699,746. There is a pending award from the National Science Foundation for just under \$1M for collections care. Additionally, MPM collaborates with other museums and universities and as a result has received more than \$3M in the past several years. Most of the grant funding received supports the care, management and study of Milwaukee County's collections.

MPM's accreditation is currently in a tabled status. American Alliance of Museums, the accrediting body, has requested that MPM provide an actionable plan by August 2021 with the body making a determination of re-accreditation by June 2022. MPM is required to submit a report to AAM in April 2022, in which "significant progress" against the future museum project needs to be demonstrated. AAM has articulated that "significant progress" indicators include securing funding from the state and County, as well as launching a private capital campaign.

Loss of accreditation would impact MPM's ability to fundraise for the museum. At this time, no donors have said their gifts are conditional upon accreditation. However, donors have noted disappointment in the re-accreditation results and concern that MPM will deteriorate further without accreditation. They have also expressed concerns over the current state of the building and for the safety of the collections. They also frequently note the need for new/refreshed exhibits to maintain relevance, interest and attendance.

Loss of accreditation would also result in MPM's inability to host travelling exhibits, which

would result in a significant fiscal impact. Not only do these exhibits provide revenue for the museum through increased attendance in ticket sales and ancillary retail and restaurant sales, travelling exhibits are also an important driver of membership sales. The last four travelling exhibits brought in \$1.2M in net revenue and generated nearly \$1.4M in memberships. If MPM became non-accredited, operations could likely continue until such time as cash reserves are depleted. However, a much more robust and thorough analysis of MPM financial records, operations, and donor activity would be required in order to substantiate how long MPM could “float” operations.

Generally, storage conditions of the artifacts are substandard and would require significant capital dollars to correct. Overall high-level estimated deferred capital costs associated with the current building are in excess of \$50,000,000. In 2015, MPM commissioned Gallagher and Associates, a leading museums consultant, to determine the costs associated with remaining in the current building. The study, which only considered the renovation of two of the current exhibits, projected the cost of renovating the current building would be \$131,857,000.00. MPM administration notes that this study underestimated the deferred maintenance of the building (at the time noting only \$30,000,000) and did not account for the full cost of storage equipment. Additionally, by renovating only two exhibits, the concept of remaining in the building fails to achieve racial equity outcomes. Finally, the study only assessed the expense associated with renovation, and did not assess the feasibility of revenue associated with the plan. MPM understands from the capital campaign feasibility study and continued conversations with donors, that there is not philanthropic support for renovation of the current building. Therefore, Milwaukee County would be the only primary revenue source for a renovation plan.

The \$50,000,000 identified in deferred capital expenses does not include upgraded storage furniture (most of the current storage furniture is subpar -- wooden oak cabinetry that off gases fumes that have a long-term negative effect on the collections) or any upgrades to the outdated exhibits. It also does not solve for the long-term operational expenses of operating such a large, poorly constructed building (lacking moisture barriers and insulation). MPM has indicated that the costs of updated storage furniture to be \$7-8M, with staffing to move the collections into upgraded storage equipment estimated at another \$9-10M, and the cost of upgraded exhibits to be \$80-90M. MPM has also indicated the building was not engineered or constructed to contemporary standards. To invest in upgrading the current building would well exceed the cost of a new building and would not ensure long-term financial sustainability, which is an important factor in evaluating a museum’s accreditation. To bring the current building up to museum standards, store the collections appropriately onsite, and update the exhibits would well exceed the cost of constructing a new facility. Therefore, AAM has made MPM’s accreditation contingent on moving the future museum project forward.

## **BUILDING FUTURE**

While the scenario of an empty public museum building is outside the scope of this report, the following offers a high-level snapshot of a decision that the County faces in the future. Any defined value determination is speculative and will be dependent on future market conditions.

The site was appraised in 2019 with a suggested market value of \$11,400,000. At the same time, a demolition study was completed with a cost projected at \$7,429,076. Assuming that a purchaser is interested in the location but not the building, they would likely consider the value as offset by the demo costs. To reiterate, this is speculative and dependent upon factors that may be outside the County’s control.

The County will also need to evaluate the cost to defease any outstanding bonds. At the time of this report, the County has approximately \$7,100,000 in outstanding MPM debt. It should be noted that outstanding bonds will continue to depreciate while MPM remains in the existing building and the new facility is constructed. There are several factors that are considered if we have to defease debt. Therefore, the amount could be less than the outstanding amount plus expenses. Once the path becomes clearer on the future of the structure, additional review will be required to break down what will be the then-current debt and what will actually need to be defeased based on the County's future determined action.

Another option available to the County would be to retain the building and repurpose it. Further evaluation will be needed, but there would be costs associated with any maintenance needs and with building out the space to make the building functionable with any proposed future use.

If the project is approved, staff will work to evaluate options more thoroughly for the existing structure prior to MPM's planned vacating in 2026.

### **RECOMMENDATION**

While the financing method, including exceeding the County's self-imposed bond cap, must be carefully deliberated by policymakers, the need for and benefits of a new museum are evidenced by this and the preceding referenced reports.

Therefore, based on the foregoing, while there is risk associated with the capital campaign fundraising, the County and MPM have worked diligently to come to an agreement on funding contingencies that would otherwise put the County at risk. A successful new museum removes long-term capital exposure from the County by providing the County the flexibility to control the existing building without the need for it to be operated as a museum.

It is recommend for the County Board to adopt a resolution (i) to authorize the County Executive, Comptroller, County Clerk, Corporation Counsel, Department of Administrative Services, and any other Milwaukee County officials deemed necessary, to negotiate, prepare, execute, and record any and all documents and instruments ("Definitive Agreements"), and to perform all actions necessary or convenient to complete the transactions with MPM and other entities as needed, contemplated in the attached term sheet to request funding for the proposed relocation of the Milwaukee Public Museum; and (ii) to direct the Comptroller to submit authorizing and parameter resolutions to the County Board for the issuance of a not to exceed amount of Forty-Five Million Dollars (\$45,000,000) in general obligation bonds or notes in accordance with the term sheet and memorialized in the Definitive Agreements.

### **VIRTUAL MEETING INVITES**

Adam Stehly (adam.stehly@milwaukeecountywi.gov)  
Katie Sanders (sandersk@mpm.edu)

### **PREPARED BY:**

Adam Stehly, Project Manager, Department of Administrative Services, Economic Development Division

**APPROVED BY:**

*Aaron Hertzberg*

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Aaron Hertzberg, Director, Department of Administrative Services

**ATTACHMENTS:**

Item 1 – Due Diligence Report

Item 2 – Term Sheet

Item 3 – MPM Proposal

cc: Kelly Bablitch, Chief of Staff, County Board of Supervisors  
Janelle M. Jensen, Legislative Services Division Manager, Office of the County Clerk  
Scott Manske, Comptroller  
Joseph Lamers, Director, Office of Performance, Strategy and Budget