

# *Pulling Back the Curtain:*

Assessing the needs of major arts,  
cultural, recreational, and entertainment  
assets in Milwaukee County

## **Executive Summary**



**Public Policy Forum**

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## **Executive Summary**

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**Commissioned by:**



# EXECUTIVE SUMMARY

In late October, a feature in the *New York Times* travel section praised the virtues of Milwaukee, saying the city “possesses a renewed vitality while still holding on to an Old World character.” A review of other recent travel articles from dozens of national publications reveals that this characterization is not uncommon. Indeed, most of those publications view Milwaukee as a city that is comfortable with its industrial and beer-making past, but that also has – in the words of Fodor’s Travel – “morphed itself into a multi-faceted destination with world-class art and award-winning restaurants.”

Those who care deeply about Greater Milwaukee’s national reputation have long argued that public support for the region’s broad array of arts, cultural, and entertainment offerings is critical to furthering the city’s image as an up-and-coming place with a “multi-faceted” set of interesting things to do. They argue, furthermore, that such support is essential for the quality of life of area residents, and for efforts to attract and retain the talent needed to prosper in the 21<sup>st</sup> century knowledge economy.

Earlier this year, with a grant from the Spirit of Milwaukee, the Public Policy Forum launched a comprehensive effort to re-examine the issue of public funding for the region’s arts, cultural, and entertainment assets. The Forum is not a newcomer to this subject, having produced a detailed report on the Milwaukee County parks in 2002, as well as an overview of the fiscal condition of the county-owned arts, cultural, and recreational institutions in 2008.

For this research effort, we set out not only to assess the condition of those assets, but also to explore how their specific needs might best be met. In addition, we examine several privately-owned arts and cultural amenities – as well as major sports and convention facilities – to provide a broader perspective for policymakers and citizens who soon may be asked to weigh in on new approaches for publicly supporting these assets.

This report is the first of two comprehensive analyses that will address the issue of dedicated public funding for arts, cultural, recreational, and entertainment institutions in Milwaukee County. In this first report, we focus on the finances and physical needs of the institutions, including an assessment of their need for public financial support. In our second report – to be released early next year – we will explore how other metropolitan areas have addressed the need for dedicated funding for their quality-of-life assets, and then model some possible approaches for Metropolitan Milwaukee.

## Arts, Cultural, Recreational, and Entertainment Assets Analyzed in this Report

### *Milwaukee County-Owned*

- ❖ Milwaukee Public Museum
- ❖ Marcus Center for the Performing Arts
- ❖ Milwaukee County War Memorial Center
- ❖ Milwaukee Art Museum
- ❖ Milwaukee County Historical Society
- ❖ Charles Allis/Villa Terrace Museums
- ❖ Milwaukee County Zoo
- ❖ Milwaukee County Parks

### *Privately-Owned*

- ❖ Discovery World Museum
- ❖ Milwaukee Ballet
- ❖ Milwaukee Repertory Theater
- ❖ Milwaukee Symphony Orchestra
- ❖ Milwaukee Youth Arts Center
- ❖ Skylight Music Theatre

### *Sports and Convention*

- ❖ BMO Harris Bradley Center
- ❖ Miller Park
- ❖ Wisconsin Center

Ultimately, the decision about whether to pursue new or enhanced dedicated public funding sources to support quality-of-life assets in Milwaukee County will be determined not only by residents' views on the importance of those assets to the region's economy and livability, but also by their perceptions of the institutions' needs, and of the fairness and affordability of proposed funding sources. Our research is intended to inform those perceptions by providing a clearer picture of the fiscal condition of Milwaukee County's major cultural and entertainment institutions, and greater insight into the ways other metro areas have grappled with similar challenges.

## Summary of Key Findings

- **The five-year capital needs of the Milwaukee County-owned arts and cultural facilities and parks are immense.** From 2008 through 2012, \$103 million was spent to address capital needs at the county-owned facilities. For the next five years, we have identified projected capital needs totaling \$246 million. In light of the vast infrastructure challenges facing other county departments and its ongoing efforts to control its debt, it is highly questionable whether Milwaukee County government has the capacity to address that magnitude of need.
- **Operating needs for the major county-owned arts and cultural facilities and parks generally are less acute than capital needs.** Recent funding agreements for the Milwaukee Public Museum and War Memorial/Art Museum minimize the need for *additional* county funds to support those entities. The parks and zoo have greater operating needs – we find they would collectively benefit from at least \$5.6 million annually in additional county support – but even for those entities, capital needs appear to be more urgent. In addition, in many cases, capital needs are directly tied to the sustainability of business models. This finding suggests that discussions about enhanced public funding for the county-owned entities should focus first on the capital side of the budget ledger.
- **Five of the six privately-owned arts and cultural organizations we analyzed are in sound financial operating condition, though each would benefit from enhanced endowments or reserves to help them withstand cyclical swings in earned revenue and pay for preventive maintenance and minor facility needs.** This finding suggests that *if* additional public funding is considered for both public and privately-owned arts and cultural entities in Metropolitan Milwaukee, then a short-term and time-limited source of support for privately-owned organizations might be most appropriate, as opposed to ongoing public funding. For example, a competitive grant process could be used to offer those organizations an opportunity to build capacity to withstand revenue volatility and bring buildings into a solid state of repair.
- **The privately-owned organizations generally have been successful in securing partnerships and philanthropic support to advance major capital projects, but the private fundraising acumen of those organizations will be tested in the future.** While the privately-owned organizations generally have been able to rely on private funders for major capital needs, three of the six analyzed in our report are contemplating ambitious new capital improvement projects. Those projects not only may compete against one another, but they also may need to compete with private fundraising to

support major capital initiatives at the county-owned public museum, zoo, and War Memorial Center/Milwaukee Art Museum.

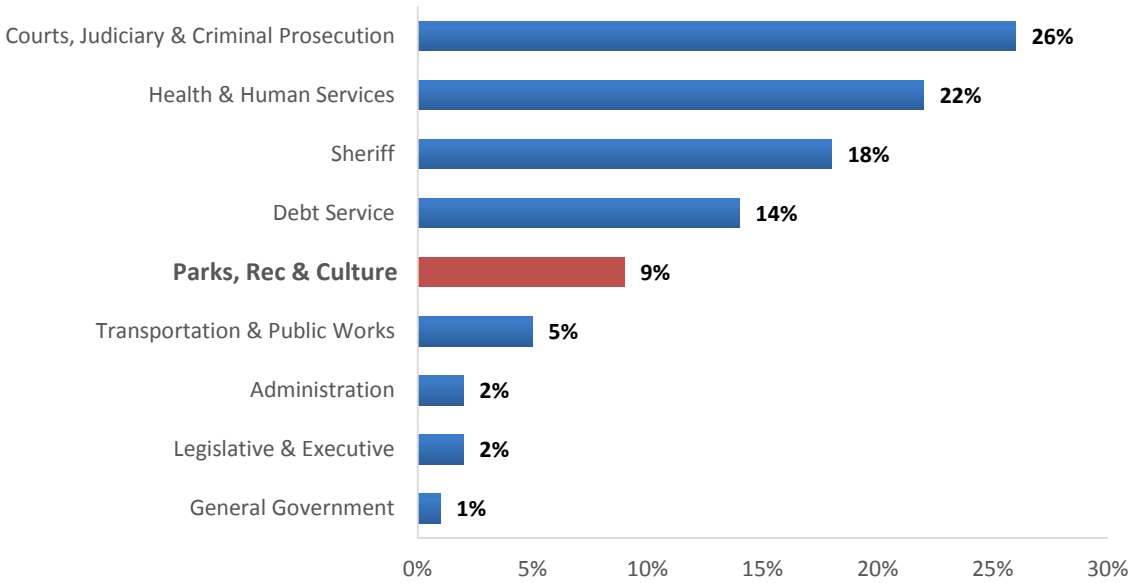
- **While most of the county- and privately-owned arts and cultural institutions and parks have some form of pressing capital need, there is wide divergence in terms of their need for basic repairs and replacement versus new improvements.** Of the \$310 million in capital needs identified for the public and private arts, cultural, and parks facilities analyzed in this report, \$113 million fall under the category of basic repair and replacement, while \$197 million would be spent on new facilities or major improvements. This is an important distinction that will need to be considered in any discussion of dedicated funding sources, as funding models geared exclusively toward one of these sets of needs may not effectively address the overall problem.
- **The BMO Harris Bradley Center and Wisconsin Center District have experienced severe operating budget challenges during the past five years, and the long-term stability of each may be tied to substantial new capital investment.** The problem is particularly acute for the BMO Harris Bradley Center, which lacks options to supplement earned revenue and faces the prospect of losing its largest tenant (the Milwaukee Bucks) after 2017. The report takes no position on whether a major renovation or new arena should be pursued, but it does indicate that should the Bucks leave, the center itself would face an uncertain financial future.

## **Milwaukee County Finances**

Our analysis begins with a broad overview of Milwaukee County's financial challenges, which is essential to understanding the county's capacity to address the needs of its arts, cultural, and recreational facilities. We discuss how growth in the cost of functions mandated by other levels of government – like human services and corrections – has outpaced growth in the intergovernmental revenues that pay for those services. That, in turn, has forced the county to dedicate a greater share of its property tax levy and other local revenue sources to its mandated services, leaving fewer local resources to support discretionary functions like parks and culture. In fact, the county now allocates less than 10% of its locally generated resources annually to support the operations of its parks, recreational, and cultural institutions.

In the meantime, the county's dedication to controlling borrowing means the vast repair and maintenance needs of its buildings, structures, and grounds is not being met. That could change in 2015, when a substantial amount of past debt will leave the county's books, reducing the annual debt service payment by more than \$15 million. County leaders must decide whether to use that relief to increase borrowing again, or to offset pressing operating needs.

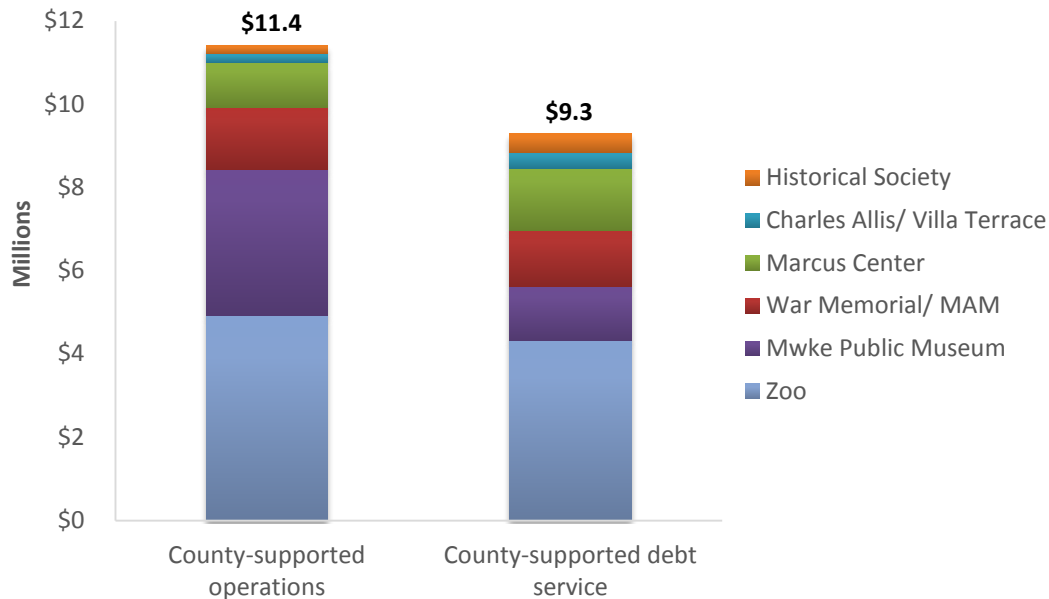
### 2013 budgeted local revenues by function



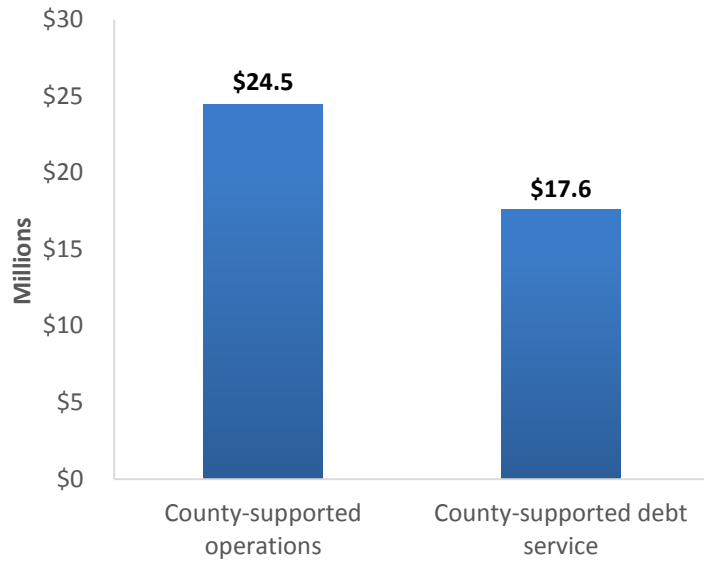
### Milwaukee County-Owned Arts and Cultural Facilities and Parks

Using the county’s overall financial challenges as context, we next turn to the financial and physical challenges facing its cultural and recreational assets. In 2013, the county is budgeted to spend nearly \$21 million in local property and sales tax revenues to support the operating needs and debt service of six major arts and cultural organizations that are housed in county-owned facilities. It also will spend more than \$42 million in local resources to support operating needs and debt service for the Milwaukee County parks.

### Milwaukee County property and sales tax expenditures for cultural entities, 2013 budget

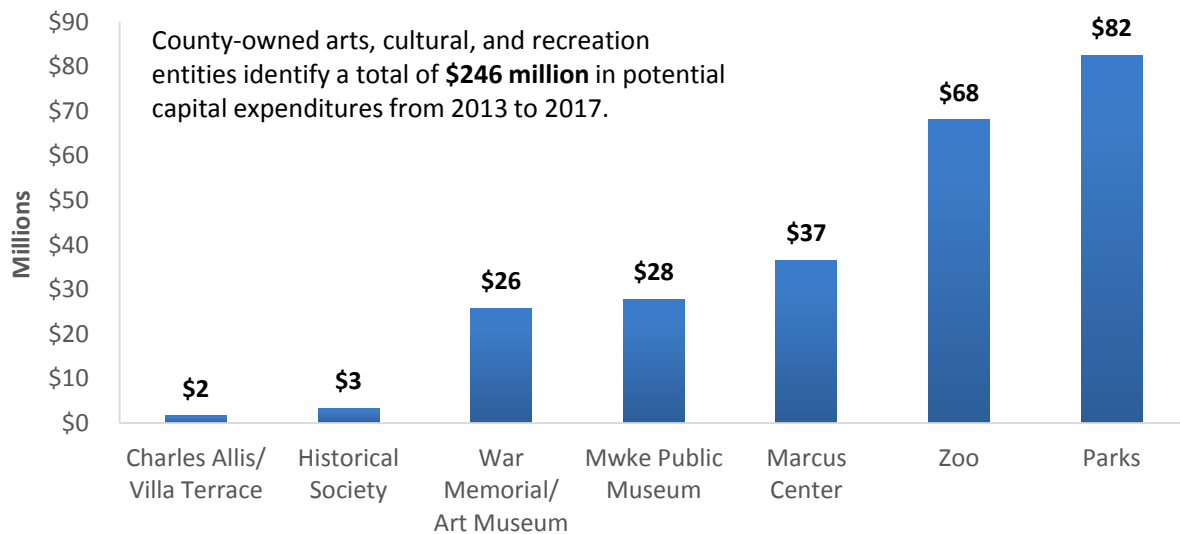


### Milwaukee County property and sales tax expenditures for parks, 2013 budget



We find that despite this combined annual expenditure of nearly \$63 million, fundamental needs are not being met, particularly on the capital side. Each of the county-owned entities cites substantial basic repair and maintenance needs, while several also cite the need for major capital repairs and improvements that are tied to their ability to enhance earned revenue and sustain their business models. Collectively, the county-owned institutions have identified \$246 million of capital improvement needs in the 2013-2017 timeframe, which is \$143 million more than the amount spent in the previous five years.

### Projected five-year capital funding needs for county-owned cultural and recreational entities



While the cumulative operating “gap” was not as easy to quantify, our analysis shows that it is most acute in the two entities that exist as county departments: the parks and the zoo. Most of the remaining institutions – while certainly not able to withstand significant cuts in *existing* county operating support – appear to be in far better operating shape, particularly following the adoption of new long-term funding agreements for the Milwaukee Public Museum and War Memorial Center/Milwaukee Art Museum.

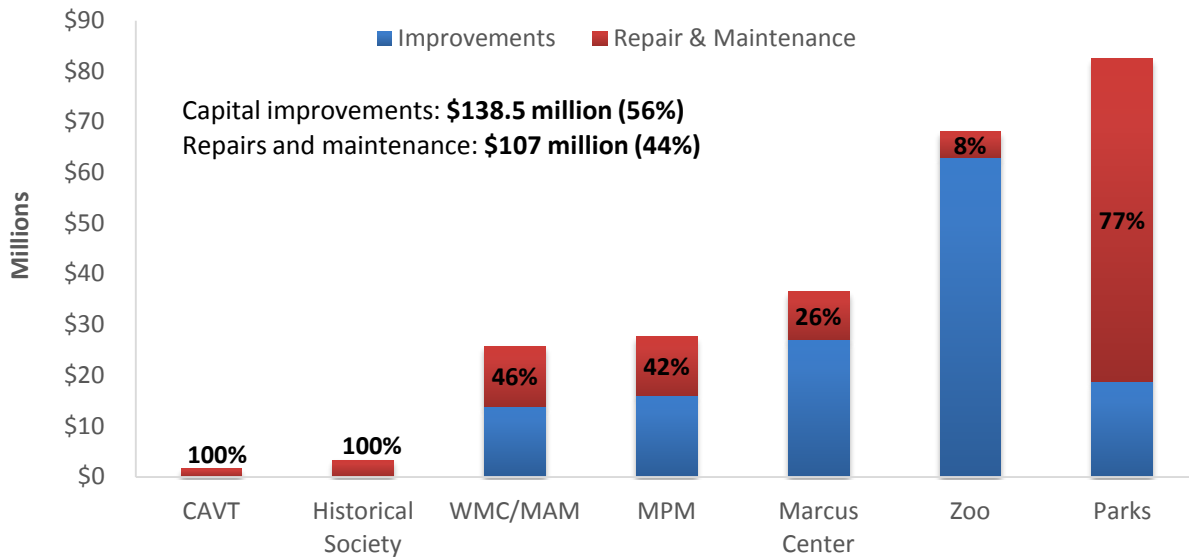
This leads to the conclusion that identifying a dedicated funding mechanism for capital improvements should be a higher priority than identifying such a mechanism for annual operating needs. That conclusion stems not only from our finding that the “needs gap” is larger on the capital side, but also from the following observations:

- Most of the county-owned arts and cultural institutions have been able to accommodate reductions in county operating support by developing innovative strategies to boost earned revenues, generate additional philanthropic support, and reduce expenditures.
- Conversely, few innovative strategies exist to reduce the cost of maintaining and repairing aging buildings and facilities. Furthermore, the ability of nonprofit organizations that operate in county-owned buildings to generate private support for building repairs is impeded by county ownership, as potential private funders justifiably see basic infrastructure needs as the responsibility of the building owner.
- A compelling argument for public support for capital investment in county-owned cultural and recreational institutions is that such investment ensures continued public ownership of – and access to – critical quality-of-life amenities. The question of public support for ongoing operations is less clear and often becomes clouded by discussion of costs associated with staff salaries and benefits, or becomes closely linked to the specific leadership of different organizations.

Our analysis also reveals an important distinction between the *types* of capital needs that are most urgent for different county-owned institutions. As shown in the figure below, \$107 million of those needs could be characterized as basic repairs and replacements, while \$138.5 million could be characterized as new or improved facilities. While those needs are relatively balanced overall, they are widely divergent for different entities. The parks and public museum, for example, have an overwhelming need for dozens of repair and replacement projects that are tied to the appearance and utility of their infrastructure. Conversely, the Marcus Center and zoo are tilted toward a small number of major projects that are deemed critical for their future business plans.



## Breakdown of capital improvement vs. capital repair needs for county-owned entities



That distinction may come into play when dedicated public funding sources are considered. For example, funding models designed solely to finance a handful of new or improved facilities may effectively serve the needs of some entities that are planning major capital projects, but may miss the mark for others that need enhanced support to take care of their existing structures. On the other hand, approaches that are geared solely toward minor and major maintenance and repairs may disregard the connection between capital funding and earned revenue, as several entities may see major improvements as a critical piece of their effort to secure operating budget stability and reduce their reliance on county operating support.

## Privately-Owned Arts and Cultural Facilities

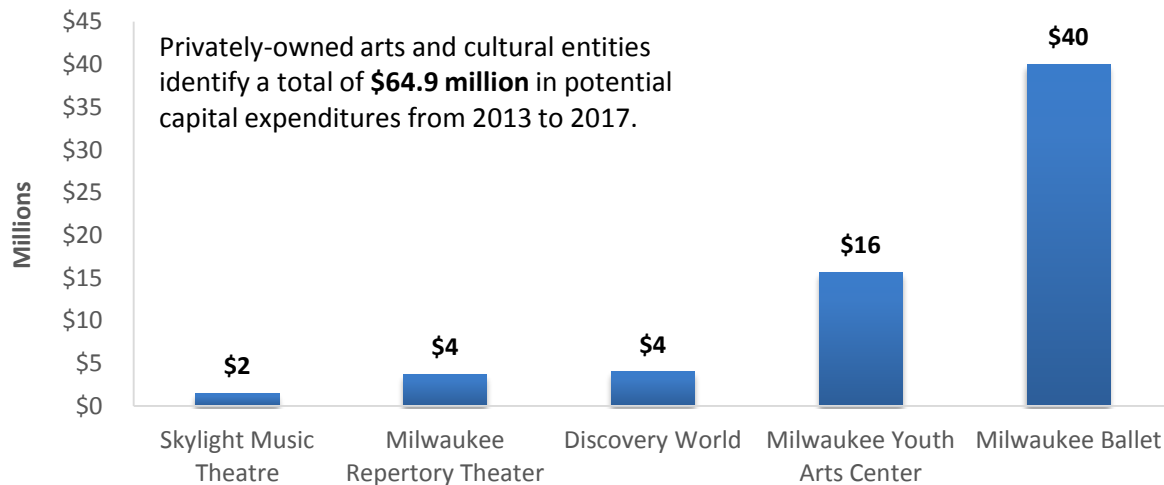
While previous discussions about possible dedicated public funding sources to support Greater Milwaukee's arts and cultural institutions have focused primarily on the county-owned institutions, other metropolitan regions have used public funding sources to generally support both public and private arts and cultural organizations as a means of ensuring that residents have a desired array of offerings from which to choose.

In Milwaukee, the need for public funding to support the overall arts and culture landscape is complicated by the existence of a robust United Performing Arts Fund (UPAF), which raises more than \$10 million in philanthropic funds annually to support 36 performing arts organizations in the region. While the performing arts are just one segment of Greater Milwaukee's vibrant arts, cultural, and entertainment scene, the existence of UPAF – plus the presence of a generous philanthropic community – could challenge the need for public sector support for privately-owned and operated organizations.

We decided to explore the finances of six prominent privately-owned arts and cultural organizations as a means of gauging the needs of organizations that do not currently receive substantial public support, and to compare their needs with those of organizations that operate in county-owned facilities. The main criterion used to select the six organizations was that they either own or aspire to own their own facility, which we considered essential to this analysis because it affords the opportunity to consider both operating and capital needs.

Overall, we find that several of the privately-owned and operated institutions are more reliant on earned revenue than their county-owned counterparts, which is logical given their lack of public operating support. That reliance means that annual revenues can swing significantly with the health of the local economy, which can make it difficult to sustain endowments and respond to annual repair and maintenance needs. We also find that the privately-owned institutions have successfully raised private funds to address major facility needs but, like the county-owned institutions, several are challenged by the age of their buildings and growing basic repair and maintenance needs.

### Projected five-year capital funding needs for privately-owned cultural entities



Consequently, we suggest that if there is interest in including privately-owned arts and cultural organizations in a new dedicated public funding source, then policymakers may wish to consider a time-limited source of support, perhaps using a competitive grants process. Instead of trying to replace private support for annual operations and major improvements with public funding sources, such an approach could be aimed at providing a temporary infusion of public funding to build the capacity of organizations with viable long-term business models to withstand revenue volatility and address basic infrastructure needs.

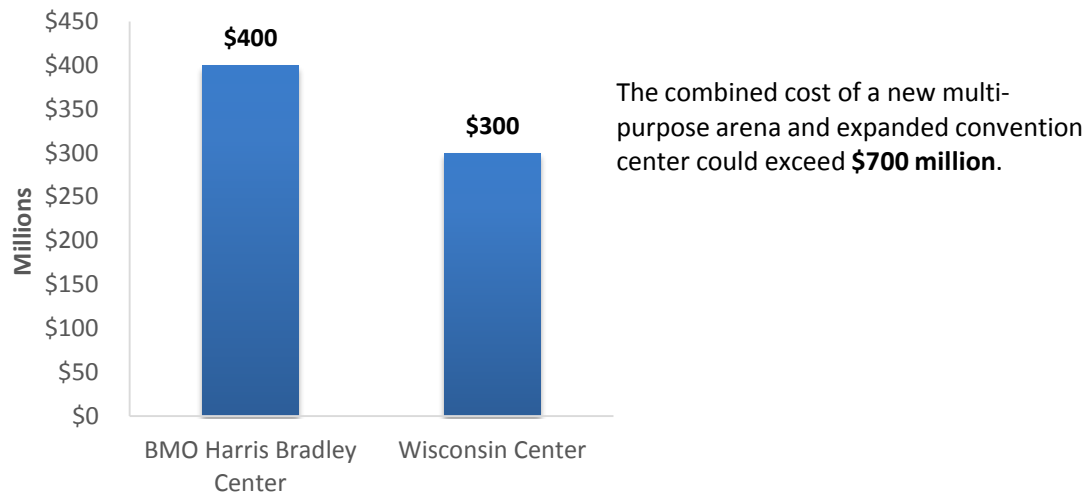
We also note that the Milwaukee Ballet, Milwaukee Symphony Orchestra, and Milwaukee Youth Arts Center are contemplating or pursuing major new or expanded facilities that could greatly enhance their earned revenues and stabilize their operating budgets. If public funding support was considered for such projects, then such consideration might take into account the severity of operating challenges facing each organization and the extent to which their pursuit of private donations for new facilities might compete with private fundraising for other arts and cultural infrastructure needs.

## Sports and Convention Facilities

Greater Milwaukee’s three largest sports and convention facilities collectively spend nearly \$54 million per year to host sporting events, concerts, convention activities, and other entertainment options for residents and visitors. We provide basic financial information on those facilities that will be useful in understanding the financial assumptions contained in the modeling in our follow-up report, and in deliberating the pros and cons of including sports and convention facilities in a plan to provide dedicated public funding to support regional arts and cultural assets.

We find that two of the three facilities (the BMO Harris Bradley Center and Wisconsin Center) have experienced severe operating budget challenges during the past five years. Each has taken important steps to secure short-term stability – the Wisconsin Center via an increased food/beverage sales tax and the BMO Harris Bradley Center through business, civic, and public support – but longer-term stability for each may be tied to substantial new capital investment.

### Potential five-year capital funding needs for BMO Harris Bradley Center and Wisconsin Center



With regard to the BMO Harris Bradley Center, it is beyond the scope of this report to analyze the pros and cons of building a new arena versus renovating the existing facility. Our broad review of the existing facility’s finances does indicate, however, that its future is cloudy if neither of those investments is made. Without the receipt of state grants, the BMO Harris Bradley Center would have experienced operating budget deficits in each of the past four years. The center’s ability to balance its budget over the next several years appears similarly challenging and is likely only to be accommodated through contributions from local businesses and foundations, as well as the City of Milwaukee. In the meantime, the facility’s basic repair and maintenance costs are growing, adding to its financial pressures.

That does not mean the center must deviate from its recent path. Indeed, the notion that support from state government, city government, and private donors would have to become permanent components of the BMO Harris Bradley Center’s budget would not make it unlike other cultural and entertainment assets examined in this report.

What makes the BMO Harris Bradley Center much different from those assets is the possibility of losing its largest tenant. Center officials contend that without a major renovation to the existing facility or a replacement arena, the center is almost certain to lose the Milwaukee Bucks when the existing lease expires in 2017, as that lease was conditionally approved by the NBA with the expectation that the team would be moving into a new facility at the end of the lease term.

Again, it is beyond our capacity to assess the likelihood that the Bucks would indeed leave Milwaukee without a new or renovated arena. Should the team leave, however, the center itself would face an uncertain financial future. According to center officials, the Bucks account for about 40% of the BMO Harris Bradley Center's attendance and more than half of its total revenue. If the Bucks depart, the facility still would require increased capital investment to address deferred maintenance and growing infrastructure needs for its remaining tenants, yet its earned revenue challenges would increase substantially.

In pointing out these financial realities, we are not suggesting that a new arena must be built. But given that the existing facility is owned by a state-created entity, discussion is warranted regarding what the facility's future would look like without its largest tenant, and what the possible consequences and options would be for state and local taxpayers.

## **Conclusion**

Overall, there is little question that Milwaukee County's public and private arts, cultural, recreational, and entertainment facilities have substantial facility needs and face significant operational challenges, both of which are highly influenced by the inadequacy or volatility of crucial revenue sources. Consequently, there also is little question that new or enhanced dedicated public funding would be helpful – and in some cases imperative – in addressing those issues.

Whether the needs and challenges facing these institutions rise above those facing other important community assets – such as schools, transportation systems, and law enforcement agencies – is a subjective question that is beyond the scope of our assessment to answer. Nor can it answer, for that matter, the question of whether all taxpayers in the county or region should be asked to pitch in to support a broad spectrum of arts, cultural, recreational, and entertainment assets that hold different value for different citizens.

Our findings do suggest, however, that if Milwaukee is interested in building upon its national reputation as a city that – according to one travel publication – “strikes the right balance between big city verve and small town friendliness,” then additional public investment in its existing array of arts, cultural, and entertainment venues likely will be required. In our follow-up report, we will consider several approaches for defining and generating that investment in an effort to ensure that the debate about additional public funding is tied to consideration of strategies that will equitably and effectively meet the identified needs.