



COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Office of the Comptroller

DATE: March 1, 2016

TO: Theo Lipscomb, Sr., Chairman, County Board of Supervisors
Gerry Broderick, Chairman, Committee on Parks, Energy, and Environment
Deanna Alexander, Supervisor, County Board of Supervisors

FROM: Scott B. Manske, Comptroller

SUBJECT: **Assessment of Marcus Center for the Performing Arts Situation
(Informational Only)**

Policy Issue

At its January 26, 2016, meeting, the Committee on Parks, Energy, and Environment, considered File No. 16-100, a verbal status update from the President and Chief Executive Officer of the Marcus Center for the Performing Arts, Inc., (MCPA) regarding the negotiation of a proposed Contribution Agreement for capital and operating support and a long-term facility lease of the Marcus Center. Upon receiving the update, the Committee adopted a motion requesting that the Office of the Comptroller assess Milwaukee County's current situation with MCPA and provide advice regarding fiscally prudent and responsible short-term options available to the County Board relative to improvements to the Marcus Center.

Recent Developments

2015 Wisconsin Act 60 was enacted on August 12, 2015. Act 60 included a provision (Section 115) that Milwaukee County should transfer the property known as 929 North Water Street, Milwaukee, unencumbered, to the Wisconsin Center District (WCD) upon adoption by the WCD Board of Directors of a resolution requesting the transfer and written proclamation of the County Executive supporting the transfer, with no County Board approval being necessary. The County currently owns 929 N. Water which includes the Marcus Center building.

The WCD Board of Directors adopted a resolution on December 18, 2015, with two major provisions: 1) resolving that currently and in the foreseeable future it does not intend to proceed with evaluating the proposed transfer until the new professional basketball arena is substantially completed or when the WCD Board

determines and 2) anticipating that it may be able to act definitively on the proposed transfer in early 2020 at the earliest.

Milwaukee County's administration and MCPA hope to soon establish lease and contribution agreements formalizing the relationship between the County and MCPA. The proposed contribution agreement would be forwarded to the County Board for approval.

Historical Background

In 1954 the County and Milwaukee County War Memorial Center, Inc., (WMC) entered into an agreement which addressed construction and operation of the war memorial at the lakefront. The agreement was amended pursuant to a 1963 County Board authorization, allowing for the construction of a performing arts center (PAC) along the Milwaukee River and calling for the County to provide annual financial support to WMC through the budget process.

The PAC was constructed in 1969 and deeded to Milwaukee County to be held in trust for the public for the preservation and enrichment of the performing arts. The PAC, along with the war memorial and visual arts center, was to serve as tribute to the fallen service members of World War II.

In 1993 and 1998 the County and WMC (renamed Milwaukee County War Memorial, Inc., (WMI) in 1998) entered into Memorandums of Understanding for the PAC (renamed the Marcus Center for the Performing Arts in 1994) in which the County pledged \$1.5 million in annual operating funding from 1994 to 1998, assistance in completing the stone recladding project, and \$1.6 million in annual operating funding from 1999 to 2003. The parties have not had a formal agreement requiring specific contributions since 2003.

Since the execution of the last formal agreement, MCPA began to separate from WMI. MCPA formed as a Wisconsin nonstock, nonprofit corporation in 2004, became a separate reporting entity in 2006, and was granted separate Internal Revenue Service 501(c)(3) status. A 2011 County audit recommended replacing an antiquated governance structure under which the War Memorial Center Board of Trustees governed several cultural institutions. In 2013 the County adopted new Lease, Management, and Development Agreements with the War Memorial and Art Museum and terminated the 1954 agreement. The agreements effectively ended WMI's governance of cultural institutions including the Marcus Center, Charles Allis Art Museum, and Villa Terrace Decorative Arts Museum. The County aimed to develop separate agreements with those cultural institutions.

For several years, the County and MCPA worked to reach an agreement for the Marcus Center. However, finalizing an agreement was dependent on resolving the parking structure issue. MCPA (originally as WMI) has leased from the City of Milwaukee the land across from the Marcus Center on which MCPA constructed a

parking structure. While the 1969 land lease with the City will expire in 2019, MCPA has expressed interest in working with the City to extend the agreement and to replace the current aging parking structure with a mixed use structure. The goal of the new structure would be to increase parking spaces and house commercial/residential development. Through this potential mixed use structure, MCPA has hoped to generate additional earned revenue to offset diminished County contributions.

Question

County policymakers have voiced concern with investing in operations and improvements of the Marcus Center asset which could be transferred from the County.

We can evaluate the County's current operating contributions to MCPA and capital improvements to the Marcus Center to illustrate the impact of the County's support.

Operations

In recent years the County has provided \$1,088,000 annually in operating funding to MCPA. The County's 2016 Adopted Budget provides MCPA \$950,000 in operating funding. The 2016 operating funds shall be disbursed in quarterly payments as long as MCPA remains a County-owned asset on the date of payment.

The attached high summary provides a snapshot of MCPA operations during the past nine years. MCPA has increased its total operating revenues over that timeframe, with an associated increase in operating expenditures. The County's operating support for MCPA has decreased, from \$1.6 million in 2003 to the current level. MCPA was able to adjust to the County operating support decreases by more than tripling revenue ticket sales revenue and other contributions from 2006 to 2014.

However, as noted below, the MCPA does not have fund balance reserves that it can use to fund operations if operating deficits occur. Management will continue to have to find ways to fund operations since operating support from the County will continue to decline.

Capital

Through the annual budget process, the County has funded capital improvements to the Marcus Center including elevator modernization (\$1.2 million) and heating, ventilating, and air conditioning upgrades (\$4.7 million). The County has funded these projects through general obligation bonding. In addition, a capital project approved in 2015 for renovations to Vogel Hall for \$2.5 million included funding by the County for \$1.5 million and funding by MCPA for \$1.0 million.

The funding by MCPA for Vogel Hall is not the only investment that MCPA has made in its facility. Capital Asset improvements funded by the Marcus Center have been nearly \$1.8 million since 2008. The MCPA has done this through private contributions and a facility fee. The facility fee was established in the 1990s, and generated approximately \$750,000 in 2014.

The facility fee was established to help the MCPA pay back bonds issued by the County in 1994 and 1995. The County issued a total of \$5,802,000 in General Obligation Bonds during 1994 and 1995 for the purpose of renovating the interior of the Marcus Center for the Performing Arts. The Marcus Center conducted a fund raising drive for the repayment of these bonds, plus other major capital improvements funded directly by the Marcus Center. In addition, the Marcus Center instituted a facility fee on tickets for the initial purpose of repaying the County bonds. The final payment on the bonds was made in 2011. Since the debt retirement, facility fees continue to fund the Center's major maintenance expenses.

The MCPA is looking to do capital improvements to the facility over the next ten years. The Marcus Center's anticipated future capital needs include

Year	Capital Support Estimate (2015 Dollars)	Project
2017	\$3,618,868	HVAC Upgrade
2018	\$694,782	Center Stage Lifts
2019	\$589,000	Elevator Modernization
2020	\$460,000	Roof Replacement
2021	\$800,000	Pedestrian Pavement Replacement
2022	\$773,000	Ped Pavement Replacement
2023	\$860,000	Ped Pavement Replacement
2024	\$780,000	Ped Pavement Replacement
2025	\$500,000	Todd Wehr Theater Entrance
2026	\$500,000	Exterior Fountain
Total 2017-2025	\$9,575,650	

Net Asset Balance

The attached Summary Combining Schedules of MCPA's Financial Position by Funds as of December 31, 2014, show the difference between total assets and total liabilities, resulting in Fund Balance or what nonprofit organizations refer to as Net Asset Balance.

The Summary Combining Schedules show that there are four Net Asset Balance categories: Operating, PAC Park, Programming, and Renovation.

- Renovation Fund shows a Net Asset of \$9.0 million which represents the net fixed asset investment for the Performing Arts Center. The Net Asset consists of \$2.0 million of current assets and \$7.0 million of long term assets: the majority which is building improvements. The Renovation fund receives funding from a facility fee and private contributions. The current assets can be used for making additional building improvements, including the \$1.0 million investment in Vogel Hall Renovation.
- The next highest balance is for PAC Park Fund, which is \$4.0 million. These funds are committed dollars to maintaining the parking garage adjacent to the Marcus Center. The commitment is based on an agreement with the City of Milwaukee. As a result, the funds are not available for operations or for maintaining the capital infrastructure of the Marcus Center.
- The next category is for Programming Fund, which has a Net Asset balance of \$0.8 million. The assets of the fund are held for performances and events in the Marcus Center, including advance ticket sales and other deferred revenue. As a result, these funds are also not available for capital improvements to the facility.
- The final category is Operating Fund, which has a negative Net Asset Balance of (\$0.1 million). Typically, the Operating Fund would be available for either capital or operating needs. The current balance is negative and thus would not be able to provide any support to these areas.

Conclusion

The financial statements reflect that MCPA is not currently prepared to operate the Marcus Center without support from the County. Funds do exist that MCPA can provide for certain capital needs of the Marcus Center. In the short term, without the County's annual operating contribution, MCPA would not be able to operate on its own unless it could increase revenue from fund raising or by increasing facility rental or other earned income. MCPA, after considering its liabilities, has limited net resources to make large capital improvements on its own or to fund operations in years with operating deficits.

Committee Action

This is an informational report only. The report should be referred to and reviewed by the Committee on Parks, Energy, and Environment.



Scott B. Manske
Comptroller

Attachments

Cc: Members, Committee on Parks, Energy, and Environment
Kelly Bablitch, Chief of Staff, County Board
Jessica Janz-McKnight, Research and Policy Analyst, Research Services Division, Office
of the Comptroller
Allyson Smith, Committee Coordinator, Office of the County Clerk

Marcus Center for the Performing Arts - High Summary of Activities

	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES									
Facility Rentals	\$1,182,849	\$1,192,990	\$1,233,692	\$1,289,651	\$1,208,008	\$1,327,681	\$1,263,485	\$1,309,200	\$1,194,672
Parking Revenue	\$818,620	\$804,947	\$825,470	\$823,900	\$875,008	\$1,012,587	\$1,018,117	\$1,177,242	\$1,109,796
Ticket Sales	\$1,035,663	\$1,372,816	\$4,250,935	\$2,030,986	\$2,590,901	\$3,174,580	\$2,121,115	\$3,211,885	\$4,172,356
Service & Reimbursement Income	\$1,488,016	\$1,302,267	\$1,262,751	\$1,665,759	\$1,588,394	\$1,680,664	\$1,393,309	\$1,642,480	\$1,639,624
<u>Other Revenue</u>	<u>\$1,058,846</u>	<u>\$1,054,303</u>	<u>\$1,320,514</u>	<u>\$1,306,929</u>	<u>\$1,380,587</u>	<u>\$1,650,298</u>	<u>\$1,508,414</u>	<u>\$1,855,300</u>	<u>\$1,864,361</u>
Total Operating Revenue	\$5,583,994	\$5,727,323	\$8,893,362	\$7,117,225	\$7,642,898	\$8,845,810	\$7,304,440	\$9,196,107	\$9,980,809
<u>Investment Returns</u>	<u>\$226,387</u>	<u>\$236,598</u>	<u>(\$26,259)</u>	<u>\$126,173</u>	<u>\$101,310</u>	<u>\$27,100</u>	<u>\$82,796</u>	<u>\$141,183</u>	<u>\$71,538</u>
Total Revenue	\$5,810,381	\$5,963,921	\$8,867,103	\$7,243,398	\$7,744,208	\$8,872,910	\$7,387,236	\$9,337,290	\$10,052,347
CONTRIBUTIONS									
County Allocation	\$1,280,000	\$1,280,000	\$1,280,000	\$1,280,000	\$1,280,000	\$1,280,000	\$1,088,000	\$1,088,000	\$1,088,000
<u>Other Contributions</u>	<u>\$205,376</u>	<u>\$1,256,253</u>	<u>\$480,726</u>	<u>\$207,474</u>	<u>\$333,446</u>	<u>\$405,059</u>	<u>\$460,627</u>	<u>\$742,754</u>	<u>\$898,094</u>
Total Revenue and Other Support	\$7,295,757	\$8,500,174	\$10,627,829	\$8,730,872	\$9,357,654	\$10,557,969	\$8,935,863	\$11,168,044	\$12,038,441
EXPENSES									
Total Operating Expenses	\$6,667,502	\$7,257,225	\$9,602,115	\$8,240,193	\$8,593,947	\$9,552,609	\$8,488,539	\$9,796,564	\$10,995,815
Interest and Amortized Financing Costs	\$98,275	\$87,022	\$70,168	\$50,185	\$37,393	\$14,312	\$5,806	\$5,112	\$3,983
<u>Depreciation</u>	<u>\$754,392</u>	<u>\$799,813</u>	<u>\$873,837</u>	<u>\$889,769</u>	<u>\$931,212</u>	<u>\$1,030,416</u>	<u>\$1,034,129</u>	<u>\$1,046,871</u>	<u>\$1,075,487</u>
Total Expenses	\$7,520,169	\$8,144,060	\$10,546,120	\$9,180,915	\$9,562,552	\$10,597,337	\$9,528,474	\$10,848,547	\$12,075,285
Change in Net Assets Before Release of Funds Due to City				(\$450,043)	(\$204,898)	(\$39,368)	(\$592,611)	\$319,497	(\$36,844)
<u>Release of funds due to City</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,193,024</u>	<u>\$169,809</u>	<u>\$99,130</u>	<u>\$111,917</u>	<u>\$157,194</u>	<u>\$241,574</u>
Change in Net Assets	(\$224,412)	\$356,114	\$81,709	\$742,981	(\$35,089)	\$59,762	(\$480,694)	\$476,691	\$204,730
Net assets at beginning of year	\$12,411,329	\$12,186,917	\$12,543,031	\$12,624,740	\$13,367,721	\$13,332,632	\$13,392,394	\$12,911,700	\$13,388,391
Net assets at end of year	\$12,186,917	\$12,543,031	\$12,624,740	\$13,367,721	\$13,332,632	\$13,392,394	\$12,911,700	\$13,388,391	\$13,593,121

Marcus Center for the Performing Arts - Summary Combining Schedules of Financial Position by Funds
as of December 31, 2014

	<u>Operating</u>	<u>PAC Park</u>	<u>Programming</u>	<u>Renovation</u>	<u>Total</u>
Current Assets	\$166,121	\$88,839	\$2,533,525	\$2,094,977	\$4,883,462
Long Term Assets	152,395	4,373,505	20,799	6,882,948	11,429,647
<u>Total Assets</u>	\$318,516	\$4,462,344	\$2,554,324	\$8,977,925	\$16,313,109
Current Liabilities	\$435,464	\$115,798	\$1,755,273	\$11,488	\$2,318,023
Long Term Liabilities	-	401,965	-	-	401,965
<u>Total Liabilities</u>	\$435,464	\$517,763	\$1,755,273	\$11,488	\$2,719,988
Total Net Assets (Net Deficit)	(\$116,948)	\$3,944,581	\$799,051	\$8,966,437	\$13,593,121