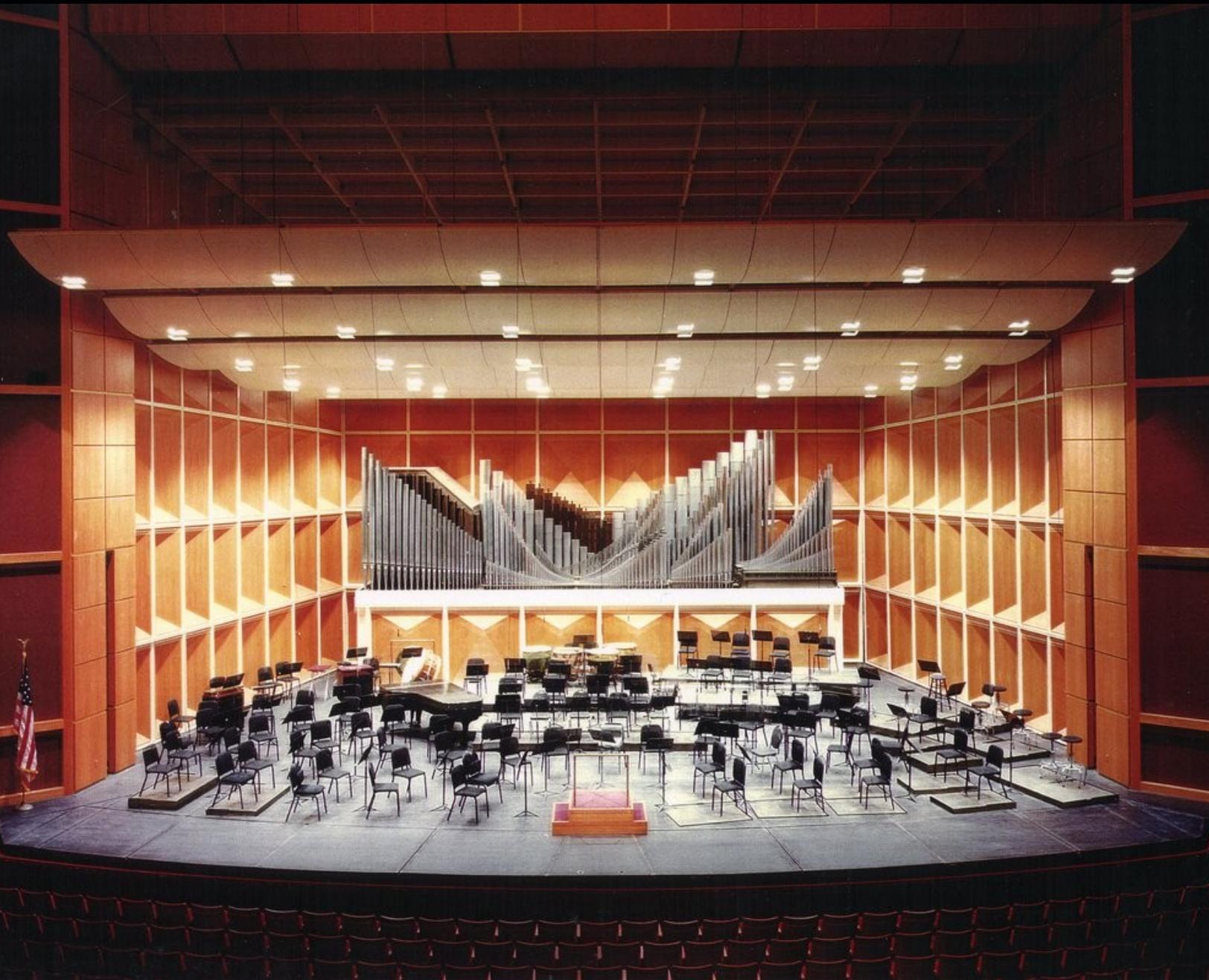


The Show Must Go On?

Exploring dedicated funding possibilities for
Milwaukee's cultural and entertainment assets



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Impartial research. Informed debate.

ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with an independent, comprehensive analysis of possible options to address the financial and physical needs of major arts, cultural, recreational, and entertainment assets in Milwaukee County. We hope that policymakers and community leaders will use the report's findings to inform deliberations about potential financial approaches and public policy objectives.

Report authors would like to thank officials from the five metropolitan areas studied in this report for providing us with descriptive and financial information about their dedicated funding mechanisms. We also would like to thank the members of the Forum's Local Government Finance Committee for reviewing and offering input into our financial modeling.

Finally, we wish to thank the Spirit of Milwaukee for commissioning and funding this research.



THE SHOW MUST GO ON?

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cultural and entertainment assets*

March 2014

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EXECUTIVE SUMMARY

Pulling Back the Curtain, the Public Policy Forum's December 2013 report assessing the needs of Milwaukee County's major arts, cultural, recreational, and entertainment assets, left little doubt about the extensive nature of those needs:

Overall, there is little question from this portion of our research 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.

The report emphasized that any call to action involving new or enhanced public funding also must weigh the region's larger infrastructure challenges, as well as the public value placed on individual cultural and entertainment assets. It concluded, however, that *if* city leaders wish to build upon Milwaukee's growing national reputation as a city that possesses both big city amenities and small town charm, then "additional public investment in its existing array of arts, cultural, and entertainment venues likely will be required."

In this report, we explore the logical follow-up question: If there is a desire to pursue additional public investment in these regional assets, then what are effective options for doing so?

That question is not as simple as it may sound. As we discovered through our analysis of other metro areas that have implemented dedicated funding sources for cultural and entertainment assets, there are several distinct dedicated funding models that differ based on the community's overall policy goals. For example:

- Is the goal to develop a means of financing a relatively ***small set of new or renovated facilities*** (such as sports arenas, convention halls, performing arts centers, etc.), or to broadly support the ***operations and repair needs of a wide array*** of existing assets and organizations?
- Is the focus only on sustaining ***publicly-owned*** arts, cultural, and recreational facilities, or is it geared toward enhancing the ***overall*** quality and breadth of the community's arts, cultural, and entertainment offerings, whether public or private?
- Does the motivation to adopt a new funding mechanism emanate from larger questions regarding the ***way local government is financed***, or does it simply stem from a desire to ***stabilize the fiscal condition*** of valued cultural institutions and amenities?

To provide context for consideration of these different policy goals in Milwaukee, Section 1 of the report provides detailed analysis of five metro areas that had different objectives and pursued different strategies.



- **The Allegheny Regional Asset District** in Pittsburgh uses a permanent half-cent sales and use tax to provide substantial operational support to nine high-profile cultural assets, pay debt service on new sports stadiums and a new convention facility, and provide smaller grants to dozens of additional arts and cultural organizations. This example highlights a comprehensive approach that replaces a portion of the municipal property tax with a county-wide sales and use tax, and that uses a series of funding tiers to prioritize investments in assets deemed to have the highest regional significance.
- **Cuyahoga Arts and Culture** in the Cleveland area uses a 10-year, renewable 30-cent-per-pack cigarette tax to provide operating and project support grants solely to arts and cultural organizations. This example highlights a narrow approach that aims to supplement funding for public and private arts and cultural organizations, and that could constitute either a temporary or permanent funding mechanism.
- The **Scientific Cultural and Facilities District** in Denver uses a one-tenth-of-a-cent sales and use tax, which must be renewed by voters periodically, to support arts and cultural assets in a seven-county region. Like Allegheny County, the SCFD uses a tiered approach, but sports and convention facilities are not included. This example highlights the potential benefits of a regional approach with a regional governance structure.
- **Oklahoma City Metropolitan Area Projects (MAPS)** uses a temporary one-cent sales tax to finance major capital improvement projects that are considered central to improving the city's economy and quality of life. Three MAPS iterations have been approved by voters and have included sports arenas, a convention center, a music hall, school facilities, a streetcar line, and other major projects. This example highlights an approach that focuses on a limited set of major capital improvements and a financing mechanism that avoids long-term debt and interest payments.
- The **Zoo Museum District** in St. Louis uses a permanent property tax mill rate of 27.97 cents per \$100 of assessed value as the primary source of operating and capital support for five major cultural institutions: a zoo, art museum, science center, botanical garden, and history museum. This example highlights an approach that focuses on enhancing the quality of a small set of publicly-owned institutions and preserving public access to those venues.

Additional details on the dedicated funding mechanisms used by these five regions are provided in the table on the following page.



Summary of five metro area funding approaches

Allegheny Regional Asset District (Pittsburgh Area)	Cuyahoga Arts & Culture (Cleveland area)	Scientific & Cultural Facilities District (7-county Denver area)	Metropolitan Area Projects (MAPS) (Oklahoma City)	Zoo Museum District (St. Louis city and county)
Half-cent sales & use tax levied by county	30-cents-per-pack cigarette tax levied by county	One-tenth-cent sales & use tax levied by district	One-cent sales tax levied by city	27.97 cents per \$100 assessed value property tax levied by district
County Council ordinance	Voter referendum	Voter referendum	Voter referendum	Voter referendum
Funding source established in 1994	Funding source established in 2006	Funding source established in 1988	Funding source established in 1993	Funding source established in 1971
Indefinite term	Temporary but renewable	Temporary but renewable	Temporary; term varies	Indefinite term
2014: \$91.2 million to 91 assets in three funding levels	2014: \$15.6 million to 196 organizations in 2 main grant programs	2012: \$45.7 million to 284 organizations in three funding tiers	2009: MAPS 3 (current package) \$777 million, 8 years, 8 projects	2012: \$74 million to five assets
Operating or capital	Annual operating or project-based grants	Operating (excluding debt service)	Capital	Operating or capital
Arts, culture, recreation, entertainment, other	Arts and culture	Arts and culture	Recreation, entertainment, other	Arts and culture

The case studies show that consideration of dedicated funding for arts, culture, and entertainment involves far more than choosing a taxing mechanism. Discussions in Milwaukee have focused, thus far, on the type and amount of the tax (widely assumed to be a sales tax). Our analysis of other metro areas shows that in addition to that critical element, those advocating for a dedicated funding source will have to think carefully about **eligibility** (what types of institutions and/or projects will be covered); **specificity** (will eligible institutions and/or projects be delineated in statutory language, subject to competition, or will there be a tiered approach); **permanency** (will the funding source be ongoing or time-limited); and **flexibility** (will funds be directed toward operations, capital needs, or both).

The debate in Milwaukee also will involve important public policy considerations regarding the equity and effectiveness of specific taxing mechanisms, as well as their geographic reach and governance. Consequently, Section 2 of the report explores Milwaukee County versus multi-county approaches to dedicated funding; the various non-cultural assets and functions that might be included in a new public funding mechanism; the possible establishment of a new district or authority to govern major assets in conjunction with a dedicated funding source; and the pros and cons of property, sales, and sin taxes both in general terms, and in the context of the existing tax burden of Milwaukee County residents.



Finally, Section 3 models four distinct dedicated funding approaches and how they hypothetically could be applied in Milwaukee County (see table below). For each funding model, sub-models are created that apply the funding approach to different policy objectives (e.g. the range of institutions that would be covered and whether funds would be used for operating, capital, or both). Our decision to limit the modeling to Milwaukee County reflects the scope of our needs assessment, but should not be construed as a recommendation that a broader, regional funding approach should not be considered.

Summary of four hypothetical funding models for Milwaukee County

Model 1: Major Capital Projects Approach
Eight-year sales tax to cash finance a share of several major capital improvement projects

Sub-Model	Entities Included	Total Funds Needed/Raised	Revenue Source
1A	Arts & cultural institutions	\$101 million (\$13 million annually)	0.10% sales tax
1B	Arts, cultural, parks	\$115 million (\$14 million annually)	0.12% sales tax
1C	Arts, cultural, parks, new arena	\$392 million (\$49 million annually)	0.39% sales tax
1D	Arts, cultural, parks, new arena, expanded convention center	\$692 million (\$87 million annually)	0.69% sales tax

Model 2: Comprehensive Tiered Approach
Permanent sales tax to replace property tax for county-owned institutions and provide enhanced support for other tiers

Sub-Model	Entities Included	Annual Funds Needed/Raised	Revenue Source
2A	Arts & cultural institutions	\$20 million	0.16% sales tax
2B	Arts, cultural, parks	\$48 million	0.39% sales tax
2C	Arts, cultural, parks, new arena, expanded convention center	\$90 million	0.72% sales tax
2D	Arts, cultural, parks capital	\$14 million	0.11% sales tax

Model 3: Supplemental Funding Approach
10-year cigarette tax for competitive grants to supplement existing public support for arts/culture organizations

Sub-Model	Entities Included	Annual Funds Needed/Raised	Revenue Source
3A	Operating & project support grants for arts, cultural, parks	\$12 million	30-cent-per-pack cigarette tax (0.1% sales tax could be substituted)
3B	Capital grants for arts, cultural, parks	\$12 million	30-cent-per-pack cigarette tax (0.1% sales tax could be substituted)

Model 4: High-Quality Public Assets Approach
Permanent dedicated property tax mill rate for major county-owned arts and cultural institutions

Sub-Model	Entities Included	Annual Funds Needed/Raised	Revenue Source
4A	Arts & cultural institutions	\$13 million	\$0.23/\$1,000 equalized value
4B	Arts, cultural, parks	\$41 million	\$0.73/\$1,000 equalized value
4C	Arts, cultural, parks ops & debt service	\$73 million	\$1.32/\$1,000 equalized value



These hypothetical models were developed for illustrative purposes based on their perceived applicability to the needs of Milwaukee County's cultural and entertainment assets and their usefulness in conceptualizing the decision points associated with distinct funding approaches. It is important to recognize that there are countless variations of these models – as well as countless additional dedicated funding models – that could be employed by Milwaukee County or regional decision-makers.

In addition, because our models reflect approaches that encompass a broad range of assets in Milwaukee County, they employ broad funding mechanisms (i.e. sales, property, and sin taxes). Scenarios that only involve a new multi-purpose arena, or that focus solely on Downtown Milwaukee, also might consider narrowly-focused funding mechanisms, such as tax incremental financing, admissions/usage fees, or special taxes for athletes and entertainers.

Our modeling exercise reveals the advantages and disadvantages of using different funding approaches and different types of taxes to address the arts, cultural, recreational, and entertainment needs identified in our December 2013 report. We conclude that there is no right or wrong approach, but the strategy that is pursued should reflect the Milwaukee community's unique objectives.

For example, our case studies show four distinct types of drivers in other metro areas:

- 1) A desire to spread the cost of supporting regional cultural and entertainment assets from city or county to a broader geographic area.
- 2) A desire to vastly enhance the number and quality of cultural and entertainment assets as a means of bolstering economic competitiveness.
- 3) A desire to preserve or enhance public access to high-quality cultural amenities.
- 4) A desire simply to rectify previous underinvestment in the existing array of arts and cultural amenities.

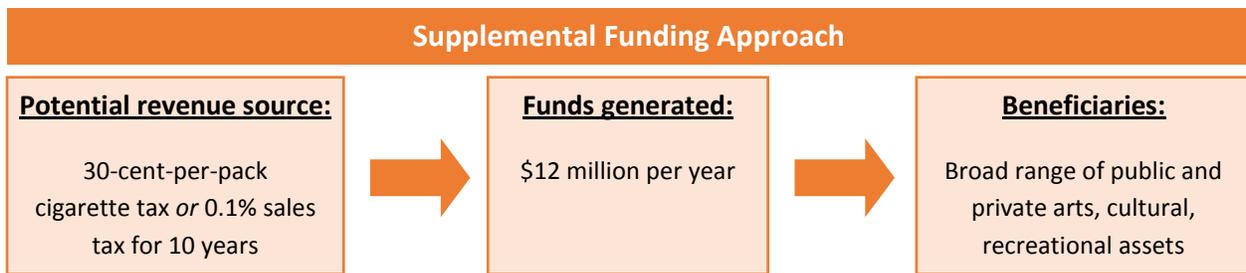
Here in Milwaukee, a case could be made on behalf of each of the four as the primary driver. That creates a challenge for decision-makers, as different drivers dictate different approaches to dedicated funding.

Another important question is whether the cultural and entertainment funding debate solely is about the immediate needs of valued regional assets, or whether it also should involve consideration of the need to permanently transform the method of financing and governing those assets. Since the 1990s, Milwaukee County leaders have questioned the efficacy of using property taxes as the primary means of supporting the county-owned parks and cultural institutions. Meanwhile, others have suggested that the institutions be transferred to a special district, where they would be free from competition with other county functions for resources and attention. Consequently, some might suggest that the imperative to address the pressing needs of regional amenities also should be viewed as an imperative to consider longstanding questions of local government finance and structure.

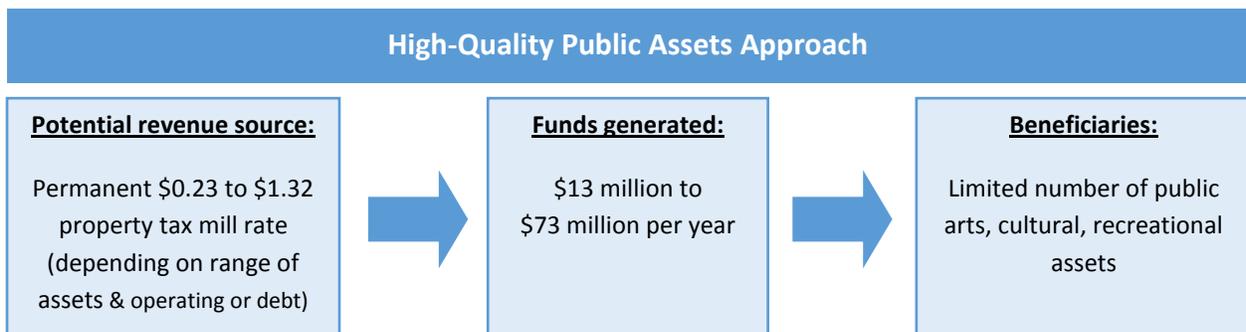


While we cannot answer those questions, our research points to clear pathways for action depending on how they are answered by policymakers and the community at large:

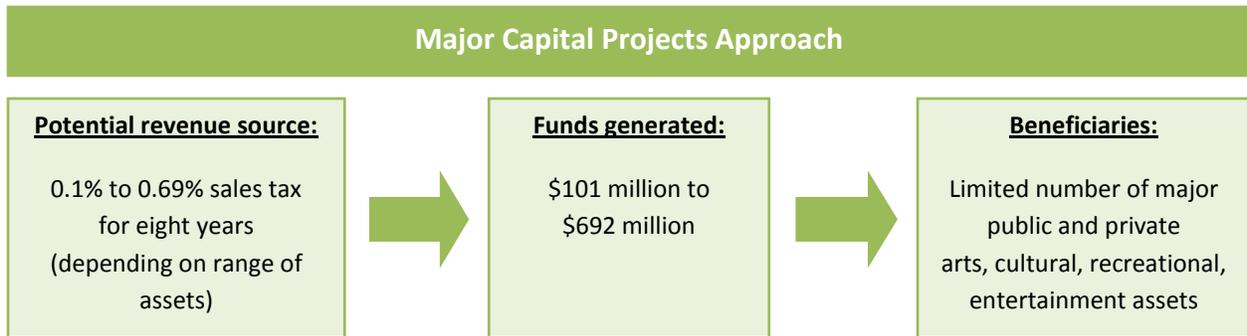
- A **supplemental funding approach** could be pursued if the objective is narrowly geared toward addressing immediate basic operating and/or capital needs of arts and cultural institutions and parks, while leaving existing funding structures largely in place and deferring on the issue of a new arena or expanded convention center. Our modeling indicates that a 30-cent-per-pack cigarette tax or .1% (one-tenth-of-a-cent) sales tax in Milwaukee County could generate about \$120 million over 10 years to help bridge operating budget gaps at the zoo and parks department (or capital gaps at those and other county-owned facilities) and provide much-needed supplements for repairs, maintenance, and reserves at dozens of other publicly- and privately-owned arts and cultural organizations.



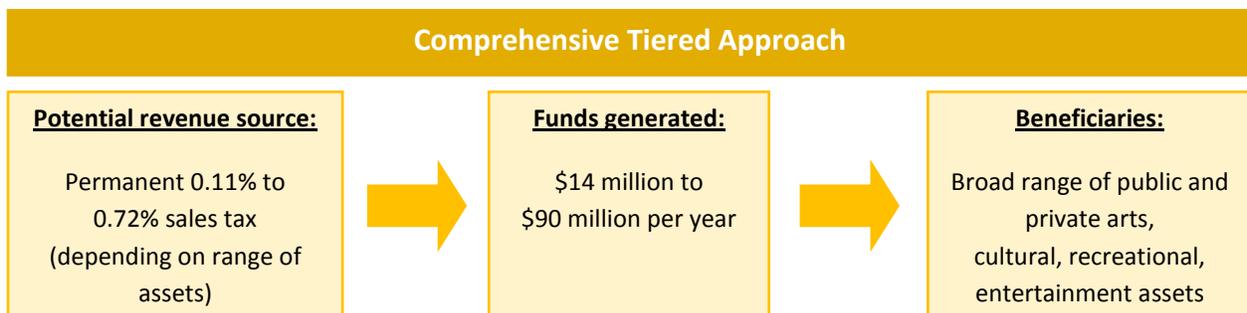
- A **high-quality public assets approach** could be pursued if the objective is to maintain quality and accessibility only for major *publicly-owned* assets by providing them with dedicated funding that would eliminate their need to compete for resources with other government functions. Our modeling shows that a dedicated property tax mill rate of \$1.32 per \$1,000 of equalized value in Milwaukee County could provide steady public funding to support operations and debt service at the Milwaukee Public Museum, Milwaukee County Zoo, Milwaukee County War Memorial Center, Milwaukee Art Museum, Marcus Center for the Performing Arts, and Milwaukee County Parks Department. Similar to St. Louis, this dedicated funding could be linked to guarantees of free or reasonably-priced admissions. A dedicated sales tax also could be substituted to achieve the objectives of this approach.



- A **major capital projects approach** could be pursued if the objective is oriented toward financing major capital improvements that hold potential for boosting the region’s image, enhancing tourism, and attracting and retaining talent. Our modeling suggests that a \$692 million package potentially could provide for a new arena, expanded convention center, and major projects for the zoo, ballet, public museum, and performing arts center, among others. The hypothetical package would require about a .7% (seven-tenths-of-a-cent) sales tax for eight years if levied only in Milwaukee County, and a smaller tax if levied regionally.



- A **comprehensive tiered approach** could be pursued if the objective is to reform local government finance and structure by permanently replacing a portion of the county property tax levy with a dedicated sales tax for the publicly-owned parks and cultural institutions, while also providing a means to support a new arena, expanded convention center, and annual grants for the broad array of other arts and cultural entities. Our modeling shows that such an approach would require a permanent sales tax of about .75% (three-quarters-of-a-cent) in Milwaukee County. If there was a desire to apply this approach to the broader five-county Southeast Wisconsin Professional Baseball Park District region, then a .35% sales tax would be required. This approach not only would represent a possible first step in achieving greater balance between sales taxes and property taxes in funding local government functions, but it also could produce desired changes to local governance structure if coupled with creation of a special district or regional authority to administer the tax and assume ownership of the county-owned assets.



Obviously, there are several variations of these strategic directions and possibilities for merging them, and there is also the option of simply maintaining the status quo. Framing the discussion around these key questions and approaches, however, would allow policymakers, civic leaders, and interested citizens to clarify objectives and determine a possible path forward to achieve them.



INTRODUCTION

In the summer of 2012, the Public Policy Forum was approached by the Spirit of Milwaukee – a nonprofit organization dedicated to educating the public about Greater Milwaukee's cultural institutions – to consider a research project that would address the potential need for new dedicated public funding to support the region's arts, cultural, recreational, and entertainment assets. In considering that request, we first needed to contemplate what type of research we could perform that would add something new and valuable to a public discussion that has been taking place sporadically over the past two decades.

For example, since the turn of the century, comprehensive reports on the condition of the region's arts, recreational, and cultural facilities have been issued by the Forum itself; a Milwaukee County Parks, Recreation and Culture Funding Task Force; the University of Wisconsin-Milwaukee's Center for Urban Initiatives and Research; and the Cultural Alliance of Greater Milwaukee. Earlier reports also were issued by the Milwaukee County Commission for the 21st Century and special task forces formed by the Milwaukee mayor and the Milwaukee County Board of Supervisors.

Despite the widespread research, discussion, and even a public referendum surrounding this issue, we observed that little analysis had been performed to identify the precise need, nature, and scope of possible funding sources. Indeed, among the questions that had yet to be thoroughly explored – and that we felt merited careful analysis in light of the renewed community-wide discussion that was soon to occur – were the following:

- How much dedicated public funding would be needed on an annual basis to ensure the health of Milwaukee County's major arts, cultural, and entertainment institutions, as well as its parks?
- How might the list of institutions that require and would be eligible for such funding be defined, and how should the dollars be allocated among those institutions?
- What dedicated public funding mechanisms exist, and what are the pros and cons associated with each?

Thus began an 18-month research project that was designed to shed light on these and related questions. The research has been reported in two installments. In our first report – released in December 2013 – we focused on the fiscal and physical condition of Milwaukee County's arts, cultural, recreational, and entertainment institutions, including an assessment of their need for public financial support. The report's primary focus was the cultural and recreational facilities owned by Milwaukee County government, but it also assessed six privately-owned arts and cultural amenities and broadly reviewed the finances of the county's three largest sports and convention facilities. For a summary of that report, see **Appendix I**.

In this second report, we build upon our needs assessment by considering how other metro areas have grappled with similar challenges, and by modeling how those approaches might be employed in



Milwaukee County. The report begins with detailed reviews of five metro areas that employ dedicated funding sources for cultural, recreational, and/or entertainment facilities. The reviews explain the rationale for each dedicated funding source, its mechanics, its governance structure, and how eligibility for inclusion was determined. Each analysis also includes observations regarding potential relevance to funding needs and discussions in Milwaukee County.

Next, we provide background information that is essential to understanding our modeling, including perspective on the general advantages and disadvantages of different revenue options and how their use in Milwaukee County would impact individual citizens. Finally, using our earlier needs assessment, we model four broad options for new dedicated public funding sources to support arts and cultural assets in Milwaukee County. Within each option, sub-options also are constructed to take into account different eligibility criteria and the potential to include a new multi-purpose arena, an expanded convention center, and the Milwaukee County parks.

This modeling is designed, first and foremost, to provide perspective on the amount of public funding that may be required to address different goals, and how funding amounts would translate into specific strategies for distributing new revenue. **The models also provide insight into important nuances that have received little public consideration to date**, including whether the dedicated funds should address operating versus capital needs; whether they should address a handful of major projects versus broad operational or capital support; and whether the new funding source should be time-limited or permanent.

While our modeling is restricted to revenue-generating options in Milwaukee County, this does not reflect a belief that a broader, regional approach should not be considered, but rather a desire to keep the scope of our research project manageable. The report does provide fiscal information that could be used to consider regional funding mechanisms, as well. In addition, we emphasize that the inclusion of public funding models that address the need for a new arena and an expanded convention center does not reflect a position by the Public Policy Forum that public funding *should* be provided for those initiatives, but rather the inevitability that these potential projects will play a major role in the discussion of dedicated public funding for arts and cultural facilities.

The question of whether to adopt new or enhanced funding mechanisms to support Greater Milwaukee's cultural and entertainment assets is a contentious one that will be influenced, in part, by citizens' perceptions of the importance of those assets to the region's economy and quality of life. Our two reports are not intended to speak to that crucial aspect of the public debate, nor is their purpose to suggest that *any* form of new or enhanced public funding is needed. Our objective, instead, is to provide an impartial body of research that will promote a better understanding of the needs of our major cultural and entertainment assets, and the types of strategies that might be considered by those wishing to use public resources to address those needs.



SECTION I:

**DEDICATED ARTS/CULTURE/ENTERTAINMENT
FUNDING SOURCES IN FIVE OTHER METRO
AREAS**

- 1.1 Allegheny Regional Asset District (Pittsburgh)
- 1.2 Cuyahoga County Arts & Culture (Cleveland)
- 1.3 Scientific and Cultural Facilities District (Denver)
- 1.4 Metropolitan Area Projects (Oklahoma City)
- 1.5 Zoo Museum District (St. Louis)



Allegheny Regional Asset District



ZOOMUSEUMDISTRICT

Introduction

Greater Milwaukee is not the first region to struggle with the challenge of how best to ensure an appropriate level of public support for cultural and entertainment facilities. Many other metropolitan areas similarly have determined that such facilities are important to their quality of life, and that they play a valuable role in promoting the region to visitors and attracting and retaining employers and talent. Quite often, however, the desire to publicly support such facilities conflicts with the needs of other local government functions – such as public safety and human services – that many classify as higher priorities given their “life and death” impacts.

At the same time, the need for public funding to support arts, cultural, and entertainment institutions often is justified by the desire to ensure their accessibility for all citizens, regardless of income. In fact, public ownership of parks, museums, zoos and other such facilities often stems from the express desire to use public funding as a means of ensuring free or reasonably-priced admission, thus implying that appropriate public sector support is a policy imperative.

In this section, we explore how five metro areas grappled with these questions and successfully implemented dedicated public funding sources to support arts, cultural, and entertainment assets. We selected these five areas after consideration of more than a dozen cities or regions that had developed such funding sources. In making our selection, we deliberately chose regions that were somewhat similar in size and demographics to Metro Milwaukee and that had established approaches that were distinctive yet relevant to the debate taking shape in our region.

In addition, we attempted to select five models that were representative of a diverse spectrum of strategies in terms of:

- How eligibility for funding was determined
- Type of funding mechanism used (i.e. property tax, sales tax or sin tax)
- Whether funding allocations were statutorily directed or distributed based on competition
- Whether funding recipients were given latitude to use allocations for operating versus capital needs
- Whether funding was provided for one-time projects versus ongoing needs
- Whether funding was limited to culture, recreation, entertainment, or a combination of these areas

In presenting information on these five metropolitan areas, we are not suggesting that any single method represents the right model for Milwaukee, or that decision-makers cannot select their own approach to meet our region’s needs (including maintaining the status quo). We do believe, however, that there are several important insights to be gained from considering how leaders in these five distinct regions grappled with issues that are remarkably similar to those being discussed in Milwaukee.

Finally, it is important to note that each of the metropolitan areas we reviewed employs a range of funding mechanisms for cultural, recreational, and entertainment assets that augment the dedicated funding sources described in the following pages. A brief description and discussion of those mechanisms is provided in **Appendix II**.



1.1 Allegheny Regional Asset District (Pittsburgh)

Background

In the 1990s, the City of Pittsburgh was declining in population and struggling to support regional institutions like museums, parks, and zoos. The historical population shift from the city to the suburbs was dramatic; whereas Pittsburgh was home to 45% of Allegheny County residents in 1950, the percentage had declined to 28% in 1993. Likewise, the city’s share of Allegheny County’s assessed property values declined from 46% to 25% during the same period.

Because of the population shift, regional institutions located in Pittsburgh, such as its zoo, conservatory, aviary, libraries, museums, and stadiums, were serving larger proportions of visitors from outside the city (up to 80% in 1993), while city taxpayers still contributed more than half (56%) of their costs.¹ The increased pressure on city government contributed to a perceived decline in the quality of the region’s cultural assets, ranging from reduced hours and fewer book acquisitions at the Carnegie Library, to deferral of critical maintenance at the parks and Three Rivers Stadium, to the threat of permanent closure of the aviary and other assets.

In 1991, Pittsburgh’s mayor asked the Allegheny Conference on Community Development – which consisted of leaders from the private sector – to address the need for stable funding for the region’s arts, cultural, and recreational institutions, and to remedy the city’s disproportionate financial burden to support those institutions. At the same time, public sentiment had emerged to find ways to reduce the region’s reliance on the property tax as the main source of revenue for local government functions, as well as to relieve the tax burden on low-income seniors and to slow the growth in fiscal disparities between wealthy and poor communities stemming from the erosion of the region’s steel industry.

**Allegheny County
Regional Asset District**

Half-cent sales and use tax
County council ordinance
Indefinite term

Allocation

- \$91.2 million to 91 assets in 3 funding levels
- Contractual assets, multi-year assets, annual grantees

Eligible Use

- Operating (96.4%) and capital (3.6%)
- Nonprofits and governmental units serving region

Funded Assets

- Libraries (32%)
- Regional parks/trails (30%)
- Sports facilities/convention (16%)
- Arts and culture (10%)
- Zoo, aviary, botanical garden (8.5%)
- Transit (3%)

¹ Queenan, C.J. Jr. 1993. Establishing a Regional Asset District. Allegheny Conference on Community Development 1993 Report.



These policy objectives led to a recommendation by the Allegheny Conference to create a countywide increase in the existing state sales and use tax to support regional assets, which would replace all or part of a combination of the city property tax, county property tax, a personal property tax, and an amusement tax.² In 1993, the state legislature followed that recommendation by adopting Act 77, legislation that authorized Allegheny County to levy a 1% county sales and use tax.³ The state directed the local option county tax to be administered under the same rules as the existing 6% state sales and use tax, including exemptions for food, clothing, and medicine.

Under the legislation, half of the sales and use tax proceeds were to be directed to a new Allegheny Regional Asset District (ARAD), a special purpose unit of local government with borders matching those of Allegheny County that was empowered to “support and finance regional assets in the areas of libraries, parks and recreation, cultural, sports, and civic facilities and programs.”⁴ The other half was to be allocated and divided equally between the county and municipal governments for property tax relief. Allegheny County leaders adopted an ordinance to implement the tax in 1994. The tax remains in effect indefinitely, and it only can be repealed by the state legislature. In that case, the administration of the tax could be transferred to the City of Pittsburgh or Allegheny County.

Act 77 does not designate specific institutions to qualify for district funds, but instead establishes broad eligibility criteria to include civic, recreational, library, sports, or cultural facilities or projects. Recipients fall into three main categories: contractual assets that receive 10 years of guaranteed funding;⁵ multi-year assets comprised only of those administered by the Sports and Exhibition Authority; and annual assets which receive funding through an annual competitive grant process. Act 77 limits the district’s administrative expenses to no more than 1% of the revenue it receives from the tax.

In 2014, the district’s budget includes \$91.2 million in grants to 91 assets. Of that amount, 96.4% are operating grants and the remaining 3.6% will be distributed for capital endeavors.

Funding mechanics

Use of local government funds

In return for receiving revenues from the new 1% local option sales and use tax, participating municipalities in Allegheny County were required to lower local taxes (in most cases, this resulted in lower property taxes), provide tax relief for low income seniors, and extend aid to the county’s eight councils of government, which support local government functions such as road maintenance and public

² Allegheny Conference on Community Development (November 1993) What is a regional asset district? *Regional directions*.

³ The “use” component of a sales and use tax generally refers to a tax on purchases by an individual of certain items that are not subject to a sales tax in a different jurisdiction that are used, stored, or consumed by the individual within his or her home jurisdiction. Taxes on certain internet-based purchases are an example.

⁴ ARAD Website (n.d.) What is RAD? <http://www.radworkshere.org/interior.php?pageID=10>

⁵ Contractual assets can apply annually to increase funding over the guarantee.



safety.^{6 7} In addition, the City of Pittsburgh was required to eliminate the city portion of the county's personal property tax and reduce its amusement tax (i.e. admissions tax) from 10% to 5%. Municipalities receive their portion of the tax according to an allocation formula that is weighted to favor communities with lower property values.⁸ Once ARAD was established, 128 out of 130 municipal governments that were eligible to participate voted to do so.

Allegheny County, meanwhile, was required to reduce the property tax rate by 5 mills (an estimated \$39 million, based on 1991 data)⁹ and eliminate the county's personal property tax. The county also was required to use the proceeds to provide property tax relief specifically to low- and moderate-income seniors who are long-term homeowner/occupants.

Use of regional asset funds

With its 50% share of the local option sales and use tax, ARAD is authorized to provide both unrestricted operating grants and capital grants to support regional assets.¹⁰ Applicants must be units of government or nonprofits that provide regional programming in Allegheny County. Excluded entities include health care facilities, educational institutions, small parks (less than 200 acres), and any organization that does not serve a significant number of residents outside of its home community. Prospective grantees are evaluated on the strength of their governance structure and financial oversight practices; quality, reach and impact of programming; and diversity of board, staff and programs.

In 2014, district funds will be allocated to qualifying entities in the following proportions: 32% to libraries; 30% to parks, trails, and green spaces; 16% to sports facilities and the convention center (to offset debt service expense on capital projects); 8.5% to regional facilities (including the zoo/aquarium, aviary, and botanical gardens); 10% to arts and cultural organizations; and 3% to transit. The district's relatively heavy support for parks and libraries stems from the historical patterns of public funding for those regional assets. Prior to the district's creation, parks and libraries commanded the largest share of City of Pittsburgh and Allegheny County regional asset support.¹¹

⁶ ACT 77 of 1993, Pennsylvania General Assembly.

<http://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=PDF&sessYr=1993&sessInd=0&billBody=H&billTyp=B&billNbr=0659&pn=2958>

⁷ Jensen, Brian K.; Turner, James W. (December 2000) Act 77: Revenue sharing in Allegheny County. *Government Finance Review*. http://www.gfoa.org/downloads/DecGFR00_RevenueSharing.pdf

⁸ ARAD Website (n.d.) Municipal funding. <http://www.radworkshere.org/interior.php?pagelD=17>

⁹ Pennsylvania Economy League, Inc. (October 4, 1993) Discussion of the regional asset district project. Presentation to executive committee of Allegheny Conference on Community Development.

¹⁰ Capital grants are not guaranteed in the provisions of Act 77, and there have been some years in which no capital grants have been awarded. During the first year after its creation, the district provided only operating grants, waiting on promises for capital grants until expected revenues from the new sales tax could be more accurately projected. Similarly, beginning in 2004, capital grants were suspended during several years as a way to maintain the district's contractual and multi-year obligations and stabilize annual operating funding, where possible, until economic conditions improved.

¹¹ Allegheny Conference on Community Development (November 1993) What is a regional asset district? *Regional directions*.



Both operating and capital grants are distributed across the following categories:

- **Contractual assets** include nine high-profile cultural facilities: Allegheny County Library Association, Allegheny County Regional Parks, Carnegie Library of Pittsburgh, Carnegie Museums, City of McKeesport Regional Park, City of Pittsburgh Regional Parks, National Aviary, Phipps Conservatory & Botanical Gardens, and Pittsburgh Zoo & PPG Aquarium. Although no regional assets are guaranteed funding indefinitely, this funding category was created for the purpose of creating a minimum funding allocation for the region's most prominent cultural assets. Most of the institutions named as contractual assets had been receiving city and/or county funding prior to Act 77 enactment, and each was therefore guaranteed to receive, at minimum, its 1992 level of city or county funding for 10 years. Additional five-year funding guarantees were adopted in 2005, 2010, and 2013. In 2014, funding for this group will comprise 72% of ARAD expenditures, or \$66 million. Of that amount, \$63.2 million will be provided in operating grants and \$2.8 million in capital grants. Act 77 calls for at least 1% of district funds to be available for capital projects for regional parks within the boundaries of Pittsburgh and at least 1% for those within the county but outside of the city. While they have an annual guarantee, contractual assets must submit grant requests for any increases over their previous year's funding level.
- The **multi-year assets** category provides multi-year commitments to the Sports and Exhibition Authority for operating grants to retire debt on an old civic arena and to support debt service on bonds issued to build new professional baseball and football stadiums and a convention center expansion. In 2014, these grants will amount to \$14.2 million, representing 16% of total budgeted district expenditures.
- The **annual assets** category will provide \$10.3 million in grants to 81 organizations in 2014, or 11% of district expenditures (\$9.8 million in operating grants and half a million dollars in capital grants). Assets in this category apply for funding through a competitive grant process and generally include arts and cultural organizations. Grantees include performing arts organizations (e.g. dance, theater, opera companies, the symphony, and choirs), museums, cultural centers, environmental programs, historical societies, and visual and media arts organizations. A 2003 resolution calls for ARAD to allocate at least 8% of its budget to arts and cultural institutions. Also included in this category is a grant to the Port Authority to meet an urgent need to maintain transit operations.
- Since 2009, the district has extended 15 grants in a fourth category, **Connections Grants**. These are one-time project-based grants that aim to foster cost-saving collaborations among ARAD-eligible organizations. They are awarded for organizational mergers, cost-sharing agreements, or ongoing projects expected to control expenditures or enhance revenue. Grant awards have ranged between \$8,000 for a database that pools performing arts organizations' patron data to \$144,000 over two years to help two organizations share five high-level staff positions and a vehicle.



Governance

ARAD is designed to be citizen-led and is governed by a seven-member board of directors, none of whom can be an elected or appointed government official. The county executive appoints four members, the Pittsburgh mayor appoints two members, and one other at-large member is elected by these six appointees. Appointed members serve throughout the term of the official who appointed them, and the at-large member serves a two-year term. The governor also may appoint one non-voting member.

The board oversees and helps develop performance standards for the regional assets. Although it does not have authority to manage the assets directly, it can require financial and performance reviews or audits. The board may not raise taxes but may authorize the district to issue bonds to undertake potential capital campaigns and use sales and use tax revenues to pay for the resulting debt service expense. In addition, the board appoints a 27-member advisory board representing a broad range of community interests to provide public input on district policy. Advisory board members serve four-year terms.

As required by Act 77, the board makes grants from the sales and use tax revenues and interest earned on investments to regional assets through an annual budget process. Proposed allocations must win the support of at least six out of the seven board members.

Key observations that may be relevant to Milwaukee

- ***ARAD generates additional resources for arts, culture, and recreation from outside of the City of Pittsburgh.*** The use of a sales and use tax allows ARAD to generate proceeds from visitors and workers who live outside of the city and county. As such, it draws on a wider regional revenue source to support centrally-located assets than could be realized through property taxes alone. This has enabled the district to achieve one of its primary policy objectives, which was to remedy the City of Pittsburgh's disproportionate financial burden to support regional arts, cultural, and recreational institutions.
- ***Reliable infusion of district funds boosts stability for institutions.*** Although each of the funded agencies must apply for ARAD grants annually (including contractual assets, which must apply for annual increases over their guaranteed funding), every agency that has qualified to receive ARAD funds since the program's inception has been able to count on a sustained and stable influx of cash for capital costs, operating expenses, or both. In fact, since the creation of the district, entities that have qualified to receive ARAD funds generally have not been defunded. In the absence of a United Arts Fund in the Allegheny County region, ARAD's ability to provide reliable support for a wide cross-section of arts and cultural organizations has been critical.
- ***Funding flexibility allows institutions to address unique needs.*** Participating assets may receive both operating and capital grants in the same year, and operating grants are nearly unrestricted. Institutions have the freedom, therefore, to use ARAD funds in any number of ways – for specific



programmatic purposes, for core operations, or to allocate them in a way that frees up fungible sources of institutional revenue such as earned revenue and interest income. These internally-generated resources may then fund critically important fiscal needs for which it is difficult to use public funding or raise private dollars, such as shoring up reserves or endowments.

- **Capital grants have supported basic infrastructure needs.** The district's capital grants have been instrumental in supporting behind-the-scenes maintenance and infrastructure needs that would have been unlikely to attract large private donations. According to ARAD, this foundational support has allowed the institutions to expand attendance and engage in research and programmatic offerings that were not previously possible. For instance, libraries – which receive the largest slice of ARAD dollars – have been able to expand circulation and programming, and also have eliminated non-resident card fees and constructed seven new facilities.¹²
- **Enhanced public funding has generated greater private sector participation and support.** Since the district's creation, the zoo/aquarium, conservatory, and aviary – formerly divisions of the city parks department – have become private nonprofit institutions and have observed substantial growth in attendance, earned income, and ability to leverage private contributions. Moreover, a few years after ARAD began funding parks throughout Allegheny County, a group of citizens founded the Pittsburgh Parks Conservancy to further improve deteriorating park facilities. The Conservancy has raised \$60 million in additional private monies to support the parks since 1998.¹³ The district's support of debt service on major sports arenas also has helped leverage additional funds from the Commonwealth of Pennsylvania. In addition, in using public funding for debt service on these capital investments, the district effectively keeps the public investment fixed and stable, allowing it to meet fluctuating operating needs through admissions and other fees that are paid by those who attend and benefit directly from events held at the facilities.
- **Lack of voter referendum places full responsibility on elected officials.** One of the distinguishing features of ARAD is that it was not passed by voter referendum. After the enabling legislation passed, the tax levy procedure was implemented as an ordinance approved through the county council, while the tax reform and revenue-sharing provisions were approved by the participating municipalities. ARAD is one of the few models of dedicated public funding for cultural facilities we have identified (and the only one analyzed in this report) that places the full weight of accountability for the policy on elected leaders, not the electorate.

¹² RAD Website (n.d.) How RAD works. <http://www.radworkshere.org/section.php?pageID=6>

¹³ Pittsburgh Parks Conservancy (n.d.) Website. <http://www.pittsburghparks.org/>



1.2 Cuyahoga Arts & Culture (Cleveland)

Background

Cuyahoga County's successful effort to create a dedicated public funding source for arts and cultural institutions was the product of about a decade of research, advocacy, and planning on the part of local leaders and the public at large. The Cleveland Foundation planted the seed in 1996 when it commissioned a study that found that the cultural assets in Northeast Ohio were under severe fiscal threat. After an extensive information-gathering and planning process, funded primarily by two prominent local foundations, a second study – Northeast Ohio's Arts & Culture Plan – was published in 2000. That study found, among other things, that support for arts and culture from local corporate and private philanthropic sources had almost reached its limit, and that, based on extensive polling, a substantial majority of area residents favored using some public tax dollars to support arts and culture.

In 2004, a ballot issue that combined property tax support for both economic development and arts and culture failed to pass by a narrow margin. Cuyahoga County leaders then considered a variety of public funding instruments, from real estate transfer fees to taxes on dry cleaning and alcohol, but those were dismissed as inadequate or politically impractical.¹⁴

In 2006, leaders tried a different approach, asking voters to approve a 10-year tax on cigarettes (30 cents per pack)¹⁵ to provide funding for an existing regional arts and cultural district (which had been

Cuyahoga Arts & Culture

30-cents-per-pack cigarette tax
Voter referendum
Temporary term, renewable

Allocation

- \$15.6 million to 196 organizations in 2 main grant programs
- General operating support
- Project support grants

Eligible Use (currently)

- Annual operating or project-based grants
- Nonprofits

Funded Assets

- Arts services
- Dance, music, theater
- Visual and media art
- Nature and science
- Fairs and festivals
- Community education
- History

¹⁴ Culbert, Jane (June 2011) Funding mechanisms for arts and culture: A survey of models for consideration by Chattanooga/Hamilton County.

<http://www.imaginechattanooga2020.org/old/docs/ArtsandCultureFundingPracticesModels.pdf>

¹⁵ This is in addition to an existing tax of 4.5 cents per pack to fund sports facilities in Cuyahoga County (Ohio Revised Code, Section 5743.024. <http://codes.ohio.gov/orc/5743.024>).



created by enabling legislation in 1979). Voters approved the 2006 referendum, creating a new stream of revenue for the district, which is now known as Cuyahoga Arts & Culture (CAC). State enabling legislation that had been passed in June of the same year limits the tax to 15 mills per cigarette and authorizes the county to levy the tax for 10 years or less.

CAC is a political subdivision of the state of Ohio. It distributes tax proceeds to institutions that provide public access to arts and culture as defined by Ohio law, “including but not limited to, literature, theater, music, dance, ballet, painting, sculpture, photography, motion pictures, architecture, archaeology, history, natural history, or the natural sciences.”¹⁶ The tax took effect on February 1, 2007, and is scheduled to expire on January 31, 2017. Although state legislation was enacted in 2008 that prohibits new local taxes on cigarettes, CAC is exempt from this provision. As long as the tax remains in effect, the county is authorized to renew the tax via voter ballot in 10-year terms for the purposes of funding CAC.

CAC administers and distributes cigarette tax revenues through several competitive grant programs that support operations and public access to arts and cultural projects and events, but not capital projects. The largest share of the proceeds is for *general operating* grants extended for two-year intervals to 60 to 70 established nonprofit arts and cultural institutions. Other nonprofits also may apply for *project support* grants to help underwrite expenses for projects and events that have an arts and culture focus and that take place within one funding year. In 2014, CAC will distribute \$15.6 million to 196 organizations, with 87.8% applied toward general operating support and the remaining 12.2% for project support.¹⁷

Funding Mechanics

The Cuyahoga County cigarette tax is administered by the state, which distributes the revenue to the county and may retain 2% in a special state fund for administration. CAC then receives its allotment from the county. The state enabling legislation confers significant discretion to the CAC board of directors in determining how CAC funds may be used including operating or capital expenses. Current CAC policy, however, allows grants only for general operating support and time-limited project-based expenses.

Organizations receiving CAC support encompass a wide range of arts and cultural assets. Current grantees fall into the following categories: education and community arts; dance; history; museums, galleries, visual, and media arts; music; other performing arts; science and nature; and theater. Excluded uses of grant funds include capital improvements (facilities and equipment); religious ceremonies or events; and fundraising. Organizations may not receive both general operating support and project support in the same grant cycle.

¹⁶ Ohio Revised Code. Section 3381.01(B). <http://codes.ohio.gov/orc/3381.01>

¹⁷ CAC also has provided project support grants to units of government, including 12 grants totaling \$160,376 in 2014. However, going forward, CAC plans to discontinue this practice and will be funding nonprofits exclusively.



The enabling legislation does permit the district to ask for direct voter approval to issue bonds and to levy an additional tax to pay interest or to retire any bond issue. Such borrowing is allowable for capital expenditures for arts and cultural facilities as long as the debt incurred does not exceed 5% of the tax valuation of the district. To date, the district has not exercised this authority.

General operating grants

General operating grants provide two years of unrestricted funding for core operating support to Cuyahoga County-based nonprofits that meet statutory eligibility criteria. Once they are deemed eligible for CAC funds, applicants are evaluated based a set of criteria that includes the strength of the public benefit they provide, their artistic and cultural vibrancy, and their organizational capacity.¹⁸ To determine grant amounts, CAC operates according to two guiding principles: that all organizations should be treated fairly; and that their operating support grant should be meaningful to them in real dollars, regardless of organizational size. As such, operating support grants are awarded using a formula that takes into account scores on the evaluation criteria; the size of the organization's operating budget, averaged over three years; and several indicators of financial health and stability.¹⁹

In 2014, 57 organizations received \$13.7 million in general operating grants ranging from \$11,609 for a theater presenter to \$1.7 million for a performing arts center. Three other organizations received grants in excess of \$1 million in 2014: the Cleveland Museum of Art, the Rock and Roll Hall of Fame and Museum, and the Cleveland Orchestra (Musical Arts Association). Additional grants will benefit arts and cultural centers, theaters, a botanical garden, performing arts agencies, an orchestra, museums of art and natural history, and historical societies.

Project support grants

Project support grants also are evaluated based on public benefit, artistic and cultural vibrancy, and organizational capacity. Organizations receiving project support grants must match grant funds dollar for dollar and show that their project will promote public access to the arts through such venues as festivals, exhibits, camps, and concerts. Requested grant amounts may not exceed 50% of the total project budget.

CAC extends two tiers of project support grants. Project I support provides up to \$50,000 for private nonprofits and requires a 1:1 cash match (such as ticket sales, individual contributions, or corporate grants). Project II support provides up to \$5,000 to private nonprofits and allows the organization to contribute up to 25% of their required 1:1 match using in-kind donations (such as volunteer time or other donated assets). Applicants may not apply for two types of project support in the same funding year.

¹⁸ Cuyahoga Arts & Culture (2013-2014) General operating support grant program guidelines and application instructions.

¹⁹ Nonprofit finance fund (2011) Understanding the revised general operating support 2013-2014 funding formula. Presentation slides. http://www.cacgrants.org/downloads/GOS_formula_workshop_slides.pdf



The 2014 project grant program will provide about \$1.9 million to 139 organizations. Project I grant amounts range between \$5,190 for a public mural and \$49,522 for the launch of a paper arts studio. Other examples of projects receiving grants in all three categories include arts, street, and folk festivals; art and music camps; wellness programs; awards shows; music and arts programs for children and the elderly; summer music programs; fine arts exhibits; mural projects; and concerts.

Creative culture grants

CAC recently introduced a pilot program that engages both arts organizations and the public in deciding on two large-scale arts and culture projects to receive up to \$150,000 apiece in a given year. Highly-ranked recipients of general operating grants were invited to submit proposals of collaborative, large-scale projects that would take in 2014. After an independent panel of arts experts narrowed the list to six finalists, the two winning projects were determined by an online and paper ballot public voting process, and CAC's board made the final grant awards based on that input.

Creative workforce fellowship

Cuyahoga Arts & Culture also supports community artists through the Creative Workforce Fellowship, a program managed by an intermediary, the Community Partnership for Arts and Culture. The fellowship provides 20 awards of \$20,000 (plus professional memberships and training program tuition waivers).

Governance

CAC's five-member board of trustees oversees funding policies (including determining the funding levels to be allocated for general operating and project support) and approves all grant expenditures. Trustees are appointed by the Cuyahoga County Executive and confirmed by the Cuyahoga County Council to serve rotating three-year terms. CAC's professional staff of seven develops, administers, and evaluates the grant programs and works to disseminate transparent information to the public regarding the grant process.

The independent panel of arts and cultural experts, chosen from outside of Ohio to minimize any real or perceived conflicts of interest, reviews and scores applications for all grant programs in open meetings and makes recommendations for grant awards to the board of trustees. The board, in turn, makes final approvals. Panel members are comprised of individuals with backgrounds as arts and cultural practitioners, consultants, administrators, or academics. The makeup of the panel is intended to reflect a balance of as many arts disciplines as possible to ensure that each applicant receives an informed and objective review.



Key observations that may be relevant to Milwaukee

- **Support from CAC leverages additional private support.** CAC leaders argue that public funding from CAC grants has helped recipients leverage additional dollars from private sources, as opposed to diminishing support from private donors. Empirically, this is difficult to demonstrate as the first year of CAC funding was 2008, a time when private sources were negatively impacted by the economic recession. CAC leaders anecdotally point to an overall beneficial effect for CAC grantees, however, in terms of overall fiscal stability and ongoing success in attracting new private dollars.
- **CAC operating grants have stabilized the fiscal health of arts organizations.** Grantees credit the general operating awards they receive from CAC both for allowing them to remain viable as well as for conferring greater opportunity to take risks to develop new programming or innovations. For example, the Cleveland Orchestra attributes significant reductions in its structural deficit to its CAC operating grant, allowing it keep its doors open and sustain its wide-reaching community outreach and education efforts. Similarly, performing arts organizations find they can now branch out into art education and support of other civic priorities beyond their core activities. Trustees on the CAC board have noted CAC's particular benefit for small and mid-sized organizations, allowing them to pay livable salaries, cover critical utility expenses, extend working hours, and boost the number of neighborhood street festivals – all of which work to continually expand opportunities for a wider group of citizens to engage in the arts.²⁰
- **Funding from CAC supplements but does not supplant existing public funding.** Unlike its special tax district predecessors in the Denver and Pittsburgh regions, the primary intentions behind the CAC model was not to stem the flow of significant levels of lost public funding or replace one major public revenue source with another. The distinguishing feature of the Cuyahoga County funding model, relative to others discussed in this report, is that it functions to supplement existing public sources and private contributions with *dedicated* arts and culture funding that provides greater reliability than any revenue source that existed previously. This was in response to a widely held recognition that the region was investing fewer public dollars than it should (and fewer than comparable regions) in highly-valued artistic and cultural assets.²¹
- **Operating and project support allows for both meaningful and broad impacts.** Although CAC provides multi-year funding to arts and cultural organization of all sizes, it endeavors to see its funding make a deep, tangible impact on its grantees. Through its eligibility criteria and funding formula, this guiding principle has resulted in CAC providing general operating support to about 60 or 70 recipients per year. At the same time, CAC also recognizes that organizations not solely focused on arts and culture provide valuable offerings on an episodic basis and merit funding

²⁰ Community Partnership for Arts and Culture (June 1 2008) Northeast Ohio's Arts & Culture Plan Progress Report. <http://www.cultureforward.org/content/download/838/9540/file/Northeast%20Ohio's%20Arts%20and%20Culture%20Plan%20-%20Progress%20Report%20Case%20Studies.pdf>

²¹ Prior to the establishment of CAC, Cuyahoga County did, for a short time, offer discretionary grants to arts organizations. Those grants were discontinued once CAC received dedicated funding.



support, such as a hospitals providing art therapy. CAC's project-based funding thereby serves as a means of broadening its impact in the community.

- **CAC emphasizes transparency and public participation.** The CAC model was created after the development of a regional cultural plan that leveraged extensive public input, including dozens of public forums to inform the planning process. Once the district was established and grants were dispersed, community leaders continued to place an emphasis on keeping the public involved and informed. A prominent example is the use of live online streaming of the independent panel grant review proceedings.
- **CAC architects opted for a narrow, time-limited approach.** After failing to win support at the ballot box for increased property tax support for both the arts and economic development, Cuyahoga County leaders decided to focus instead on a narrow and specific approach. Architects of the CAC funding model believe that it prevailed at the polls because it focused exclusively on arts and culture, it imposed a tax on a minority of voters (cigarette users), and its duration was limited and time-specific. That success also may have been helped by a history in Ohio of using voter initiatives to support local option taxes.



1.3 Scientific and Cultural Facilities District (Denver)

Background

Denver’s Scientific and Cultural Facilities District (SCFD) took shape in the 1980s during a deep economic recession and amid severe cuts to public funding for Denver’s cultural assets. In 1982, the Colorado legislature cut all direct financial support to Denver’s four largest cultural assets – its art museum, botanic gardens, natural history museum, and zoo. Previously, the City of Denver (a consolidated city and county) had covered nearly half (47%) of the total budgets of the four institutions. When the city was unable to make up for the loss of state funds, substantial cuts were made to the institutions’ operating budgets, ranging from 22% to 59%. To make up for the shortfall, staffing was cut, and visitors to those institutions, the majority of whom lived outside of Denver, were charged admission for the first time.²²

Scientific & Cultural Facilities District
 One-tenth-cent regional sales & use tax
 Voter referendum

Allocation

- \$45.7 million to 284 organizations in three funding tiers
- Set percentage, formula-based, annual competitive

Eligible Use

- Operating only (excluding debt service)
- Nonprofits and governmental units

Funded Assets

- Botany/zoology (26%)
- Dance, music, theater (25%)
- Natural history (19%)
- Visual art (18%)
- Multi-discipline (8%)
- Cultural history (4%)

When attendance plummeted, trustees of the institutions and area business leaders concluded that in light of their regional nature, a sustainable funding strategy to support the institutions must draw on public sources beyond the City of Denver. Intrigued by the regional property tax base approach of the St. Louis Zoo Museum District, leaders of the four largest cultural institutions began a push for a small increase in a 0.6% regional sales and use tax that had previously been adopted to support a six-county Regional Transportation District.

After several years of deliberations and conflict – including disputes among arts and cultural institutions regarding eligibility for proceeds from the new tax – the SCFD was established in November 1988, when 75% of the voters in the multi-county Denver region approved a temporary 0.1% sales and use tax. The tax now supports the operations of cultural facilities (both private nonprofit organizations and units of government) and is levied by the district itself. Capital and debt service are excluded as eligible expenditures, and no more than 0.75% of the tax collections can be directed toward administrative

²² Zeiger, Dinah (2008) The SCFD story: A history of the Scientific and Cultural Facilities District. <http://www.westaf.org/assets/pdf/historyofscfd.pdf>



expenses of the district. Exempted from the sales and use tax are basic necessities such as food, gas/electricity, and prescription drugs.

Eligible institutions are defined as those whose purpose is to provide public access to programming and assets in the areas of art, music, theatre, dance, zoology, botany, natural history, and cultural history. Voters extended the tax twice – in 1994 and again in 2004 – maintaining the 0.1% rate, but varying the funding formula, boundaries, and eligibility requirements each time to accommodate growth in the number and size of beneficiary institutions. Although the measure is scheduled to sunset at the end of June 2018, voters will have the opportunity to reauthorize the tax in November 2016.

The SCFD has charted significant growth since its inception in 1988, when it funded 160 organizations with about \$15 million in tax revenues. By contrast, in 2012, the district distributed about \$46 million in annual operating support to 284 eligible organizations.

Per the voter referendum and state statute, funding is dictated by three separate tax levies that, when aggregated, equal one penny on ten dollars (i.e. one-tenth-cent), across three funding tiers. This effectively distributes funding to the three tiers in set proportions.

Tier I includes five major exhibiting institutions. It originally included only the “big four” exhibiting institutions that had historical contractual funding arrangements with the City of Denver (the art museum, botanic gardens, natural history museum, and zoo), but the Denver Center for Performing Arts was added in 2004. Tier II consists of a wide variety of organizations that include science museums, visual and performing arts organizations, natural and cultural history institutions, and multi-disciplinary organizations, which receive funding based on their paid attendance and qualifying annual income. These first two tiers collectively receive more than 86% of the total tax receipts based on statutory criteria. Tier III is structured to engage local county decision-makers in the distribution of a portion of the district’s tax revenues. Its portion of district funding benefits more than 250 smaller institutions through a competitive grant process controlled by local county grant-making councils.

Funding mechanics

Organizations benefiting from the district’s tax proceeds must use the funds for annual operating expenses. This includes all expenses except for those intended for capital construction, endowment, or payment of debt principal or interest.

The composition of the existing tiers is summarized as follows:

- *Tier I* is comprised of five long-standing Denver-based institutions that promote economic development and tourism. Collectively, they receive 65.5% of SCFD funds, which in 2012 totaled \$29.9 million. By statute, the Tier I share of district funds is distributed as follows: Denver Art Museum (20.83%), Denver Botanic Gardens (11.75%), Denver Museum of Nature and Science (25%), Denver Center for Performing Arts (18.18%), and Denver Zoo (24.24%).



- *Tier II* includes established regional institutions in a variety of scientific and cultural disciplines. Unlike Tier I institutions, Tier II agencies are not specified by name in the legislation. Organizations must undergo an annual operating income qualification and certification process to be considered eligible to receive funding awards and to determine their funding allocation. By statute, monies set aside for Tier II allocations comprise 21% of SCFD funding. Tier II funds are distributed according to a formula that uses paid attendance and qualifying annual income (at least \$1.47 million in 2013) to determine each organization's share of funding. In addition, Tier II entities must have been in operation for at least five years. The number of organizations making up Tier II has grown significantly, from seven in 1989 to 25 in 2012. The total amount of Tier II funds awarded in 2012 was \$9.6 million, with awards ranging from \$86,479 for an arts festival to more than \$1 million for an arts and humanities center. Other Tier II grants in 2012 in excess of \$500,000 went to the Denver Film Society, the Colorado Ballet, a wildlife museum, a butterfly museum, the Children's Museum of Denver, and the Colorado Symphony.
- *Tier III* distributes 13.5% of SCFD funds to a broad array of smaller institutions through a competitive grant process. The monies allocated to each county for Tier III awards are based on the proportional percentage of sales and use tax revenue generated in each county. Grant awards are determined by local County Cultural Councils. Organizations in this tier must have been in operation for at least three years. In 2012, 253 Tier III recipients collectively received \$6.2 million.

Initially, the legislation excluded schools, public broadcasting, libraries, and organizations whose sole focus is historical preservation. These exclusions still exist today and are based on the fact that these entities have other dedicated public funding streams.

Governance

The SCFD has a five-person staff and an 11-member volunteer governing board of directors that is charged with several functions related to the oversight and distribution of SCFD funds. The board hires an executive director, develops reporting and review requirements for grant recipients, reviews and approves all funding disbursements, and determines the timing of the district's tax reauthorization process and ballot language within the constraints of the state statute. Commissioners from the seven participating counties (or city councils in the case of city/county entities) each appoint one board member, and the governor appoints four members, all of whom serve a maximum of two three-year terms.

An additional layer of governance, the seven County Cultural Councils, specifically engages the counties in the distribution of Tier III funding. Council members are appointed by their respective county authorities. With the assistance of SCFD staff, the county councils are charged with reviewing Tier III grant applications, allocating funding, and reviewing use of award monies.



Key observations that may be relevant to Milwaukee

- ***SCFD promotes fiscal stability among its grantees.*** District funds have shored up the finances of beneficiary institutions (especially those in Tiers I and II) and made them better able to withstand economy-induced swings in revenues. For example, when sales and use tax revenues contracted during the recent recession, the stability these entities had built from several previous years of SCFD funding allowed them to weather the storm. In fact, the Denver Zoo, though facing difficult budget decisions during the last few years, has not yet been forced to lay off any of its staff.
- ***Stable public funding has driven growth in program breadth and quality.*** Dependable public revenue has facilitated the ability of SCFD beneficiaries to raise private money for operations and, in the case of the botanic gardens and art museum, pass bond issues that may not have otherwise garnered sufficient public support. Also, in the case of the art museum, SCFD monies helped raise the institutional profile and spur greater attendance by making it possible to offer free admission. Both the improved stability and the increase in available funds have allowed the institutions not only to preserve their historical value to the community, but also to grow by investing other revenue sources in facilities and capital improvements to enhance the quality of collections. Funding from SCFD also fosters expansions in educational programs, conservation efforts, outreach services, and new exhibits.
- ***The SCFD sales and use tax has been reauthorized twice by voters, reflecting its public support.*** Support for the SCFD has remained strong for the past two decades despite the continued fiscal pressures that have plagued both taxpayers and state and local governments since its inception. After initially being approved by 75% of the voters, the SCFD was extended in 1994 with 57% voter approval, and in 2004 with the support of 66% of voters.
- ***Creation of a third tier promoted the principle of local control.*** After heated disputes regarding eligible entities and allocation percentages, advocates for the SCFD opted to create a grant-based Tier III funding level that vested considerable authority with county-based cultural councils over distribution of Tier III dollars, and that allocates funds to each county based on its contribution to the district. In addition, Tier III funding is available to qualified units of local government. These added elements of local decision-making helped build and sustain support for the SCFD.
- ***The tiered approach remains a point of contention.*** Each time the district's tax has been presented to the voters for reauthorization, the funding formula has emerged as a source of discussion. In part, this is a result of the flexibility in the formula system that allows it to accommodate the growth of important institutions, as well as growth in the number of institutions receiving support. For example, the botanic garden grew from the smallest Tier I institution at the SCFD's inception to the third-largest today. This flexibility also creates tension among the family of institutions and their supporters, however, as debate continually arises over how funding should be distributed both within and across tiers.



1.4 Metropolitan Area Projects (Oklahoma City)

Background

Like many cities that successfully created public funding sources for arts, culture, and entertainment, Oklahoma City’s Metropolitan Area Projects (MAPS) model took shape amid economic turmoil. Conceived by the Greater Oklahoma City Chamber and the Oklahoma City mayor in the early 1990s, the model’s roots trace back to the oil boom collapse of the 1980s. After dozens of bank failures and a mass exodus of corporations, young talent, and population, the city tried and failed to attract outside investments, including the relocation of corporate headquarters from other parts of the country.

In the early 1990s, Oklahoma City voters approved a one-cent conditional sales tax to fund major infrastructure improvements in a bid for a United Airlines maintenance facility contract. Despite offering the best incentive package of all the finalists, Oklahoma City was rejected in favor of Indianapolis, in part because it lacked quality-of-life amenities the airline deemed necessary to attract employees. This setback initiated a shift in Oklahoma City’s mindset about how to improve quality of life within the city – from a focus on attracting outside investment to a willingness to invest in the city itself. Consequently, the sales-tax-funded package of development projects that became known as MAPS was born.

MAPS is a series of city-wide capital development plans focused on enhancing quality of life throughout the Oklahoma City metropolitan area. The first set of MAPS projects was adopted in 1993 when Oklahoma City voters approved a temporary one-cent (1%) sales tax for a package of nine capital projects related to downtown sports, recreation, entertainment, cultural, and convention facilities.

The distinguishing feature of this model is the use of cash financing – as opposed to bonding or other long-term borrowing – as a way to finance capital improvements. In general, MAPS projects do not even begin until the dedicated sales tax generates enough revenue to fund current construction. To date, Oklahoma City voters have approved two additional major MAPS packages after the initial vote in 1993,

Metropolitan Area Projects (MAPS)

1-cent sales tax
Voter referendum
Temporary term

Allocation

- Four sequential packages, outlined in the voter referendum
- MAPS 3 (current package): \$777 million, 8 years, 8 projects

Eligible Use

- Capital only
- Cash-financed (almost no bonding)

Funded Assets

- Performing arts centers
- Parks
- Convention, sports, and civic centers
- State fairgrounds
- Transit
- Schools, libraries



each taking effect as the previous one has expired. The second package, funded by a seven-year sales tax (as well as a separate school bond issue), encompassed capital projects and upgrades for public schools. The third major package, now underway, will be in effect for seven years and nine months and includes eight downtown development projects similar in scope to those in the initial MAPS package. A short-term (15-month) extension for an NBA arena upgrade also was approved in 2008.

Although Oklahoma state law required Oklahoma City to hold a referendum to pass each of these special purpose sales taxes, none of these measures required separate state authorizing legislation. That is because existing state law gives Oklahoma City authority to levy local option sales taxes (incidentally, the city does not have the authority to levy property taxes).

The mix of projects approved for each of the four MAPS initiatives evolved under the leadership of the Greater Oklahoma City Chamber, with the mayor serving as the public face and champion of the proposals. The stated goal was to focus resources on a select group of projects that would improve quality of life for the city as a whole, rather than smaller improvements that would serve numerous individual interests or neighborhoods.

For the first MAPS campaign, the Chamber board took the lead during retreats and other stakeholder gatherings to generate an initial set of project ideas.²³ Once the Chamber constructed this first round of ideas, the packages took shape through a public engagement and communications process. Projects were assembled using extensive market research (including focus groups and polling) that was geared toward determining the right mix to garner support from a majority of voters. Each MAPS proposal also was accompanied by extensive voter education campaigns using several forms of media, which were funded by the Chamber and other corporate and private contributions.

A byproduct of this market research-driven process for determining which projects would make the MAPS packages was that arts and cultural amenities largely were omitted. In fact, polling during the first MAPS campaign indicated a lack of voter interest in the arts. Interestingly, after local arts groups voiced their opposition to the first MAPS because it excluded arts-related entities, the Chamber helped broker a compromise. That compromise involved an effort by the business community to raise \$35 million in private contributions to fund a major arts acquisition for the art museum, in return for an informal agreement from major arts community players not to actively impede MAPS efforts.

Funding Mechanics

As noted above, the hallmark of MAPS is that its projects are financed with a local option sales tax using a pay-as-you-go financing model. As such, MAPS projects generally do not break ground until sufficient sales tax revenues are raised to see them through to completion. This approach allows the city to avoid incurring future debt service obligations for the projects, and it also allows for several years of earned interest on sales tax proceeds to help finance the projects.

²³ The current MAPS 3 process also leveraged a mayor-sponsored website for drawing ideas from the community.



MAPS projects are administered by a MAPS Office within city government and generally are located within city limits. Most of the MAPS projects pursued to date have been new and upgraded city-owned facilities or public schools. Each package of improvements takes effect through a distinct Oklahoma City voter referendum that approves or extends the one-cent sales tax to remain in effect for a limited term. The term length corresponds to the timeframe for generating the estimated tax revenues needed to complete construction on the planned projects. Because the construction phase can exceed the time it takes to collect the tax, each initiative has followed a 10- to 12-year completion process, regardless of the taxing time period.

MAPS plans also have included numerous measures to ensure adequate resources for ongoing maintenance for the spate of new capital stock created throughout the city. For example, during the first MAPS package as well as the current one (MAPS 3), the Oklahoma City Council implemented a companion use tax on businesses purchasing goods outside Oklahoma City for use within city limits. These use taxes have been in effect for the same time period as the corresponding MAPS sales tax. Proceeds are used to fund operations, administration, and future maintenance and capital replacement. Other sources of revenue that have been earmarked for future repairs and maintenance include projected earned revenue from new MAPS facilities; pre-construction interest on sales tax proceeds; and Business Improvement District revenues.

The following summarizes the components of each individual MAPS initiative:

MAPS (1993-2004)

In December 1993, Oklahoma City voters approved a five-year one-cent sales tax to fund the first iteration of MAPS, a package of nine capital improvement projects primarily focused on downtown public sports, entertainment, and cultural facilities. The initiative carried 54% of the vote, and voters ultimately extended the tax for an additional six months.

During the full five-and-a-half year period, the tax generated \$309 million plus an additional \$54 million in earned interest. By August 2004, the city had completed construction of all nine projects, which included construction or improvements on the following facilities: a new Triple-A baseball stadium; the Bricktown Canal/entertainment district green space; a new downtown NBA sports and concert arena; a new library; Civic Center Music Hall; a convention center; the state fairgrounds; river dams and development; and the launch of a trolley-based transportation link. The City Council also enacted an additional use tax to mirror the rate and timeframe of the MAPS sales tax for the purpose of funding ongoing operations, maintenance, and capital replacement for the nine MAPS capital projects.

Once voters approved the projects, the mayor appointed a 21-member citizen oversight board whose role was to review projects and make recommendations to the city council regarding project financing, site location, and other components. The board also oversaw the process of public review of the MAPS Master Plan culminating in the city council's approval in February 1995.



MAPS for Kids/OCMAPS (2001 to 2014)

Initiated by the mayor, the Oklahoma City Schools Foundation, business leaders, and others, the Oklahoma City Metropolitan Area Public Schools (OCMAPS) program, also known as MAPS for Kids, is a major public school renovation plan focused on all public schools within Oklahoma City limits. In November 2001, city voters approved a two-pronged funding instrument for extensive capital improvement projects in schools that enroll Oklahoma City residents. The measure includes a seven-year sales tax that took effect when the initial MAPS sales tax was retired and that is estimated to have raised \$514 million. The initial sales tax rate was a half percent but rose to one percent in April 2003 and expired at the end of 2008. MAPS for Kids also includes a \$180 million Oklahoma City Public Schools (OKCPS) general obligation bond issue.

As with the first iteration of MAPS, a portion of the MAPS for Kids tax fed into a reserve that was established to fund the ongoing management and operations of the projects after the tax expired. Seventy percent of the proceeds from the MAPS for Kids tax were allocated to OKPCS – where every district school is receiving either extensive renovations or new school buildings – while the remaining 30% was directed to all 23 school districts located within the city but outside of OKCPS boundaries. The bond issue portion finances additional facility improvements and technology projects for schools within OKCPS only. Overall, the combined funding measure has paid for more than 100 projects, including 76 new and renovated schools, computers, security systems, buses, furnishings, and curriculum upgrades.

The Oklahoma City Council and the Oklahoma City Public School District appointed a seven-member OCMAPS Trust to govern all OCMAPS projects funded through the sales tax, and to manage bond-funded projects through a management agreement with OKCPS. Current trustees include the Oklahoma City manager, as well as business, nonprofit, and other municipal leaders. Suburban school projects and budgets must gain approval through an application to the OCMAPS Trust. The city's OCMAPS office manages the operations, budget, design/construction contracts, and reporting for MAPS for Kids projects, slated to be complete in 2014.

Notably absent from the OCMAPS governance structure is the OKCPS Board of Education. According to Chamber leaders, a decision was made to exclude the school board because voters had rejected several past school bond issues, and it was felt that the promise of a citizen-led oversight body would attract greater support from voters.

Big League City/NBA arena (2008 to 2010)

In March 2008, Oklahoma City voters approved a 15-month extension of the one-cent sales tax, to begin in January 2009, just after the expiration of the MAPS for Kids sales tax. The short-term extension generated \$105.2 million and funded major upgrades to the Chesapeake Energy Arena and construction of an offsite NBA practice facility to accommodate the city's newly acquired NBA franchise, the Oklahoma City Thunder.



MAPS 3 (2009 to 2017)

In December 2009, Oklahoma City voters approved the MAPS 3 measure, which extended the one-cent sales tax to fund eight downtown revitalization projects. The projected \$777 million in sales tax revenues will be raised from April 2010 through December 2017 and will fund a new downtown convention center; a 70-acre central destination park; a downtown streetcar system; 60 miles of hiking, biking, and running trails; 100 miles of sidewalks to foster access to public buildings; four senior fitness/recreation centers; an expansion of the state fairgrounds; and improvements to the Oklahoma River green space, including an Olympic training and recreational whitewater facility. The fund also includes a reserve for contingency and unforeseen general infrastructure needs.

Of all the MAPS initiatives approved to date, MAPS 3 commanded the widest array of communications strategies. The campaign lasted 12 weeks and disseminated its message through public presentations, traditional media spots, social media, news releases, direct mail, print and online ads, billboards, yard signs, organizational endorsements, websites, and door-to-door communication. In addition to the 5,000 chamber members, the coalition in support of MAPS 3 included 62 organizations throughout the community, including neighborhood associations, transit groups, trade unions, arts groups, merchant/hotel associations, professional associations, realtors, and many others.

Although other MAPS initiatives had encountered opposition, MAPS 3 was the first to experience a well-organized and financed opposing coalition. In particular, the Oklahoma City police and fire unions organized a large campaign against it, citing a need to fund essential public safety staff positions rather than capital projects. In an effort to limit losses in voter support produced by the opposition's messaging, MAPS 3 campaign leaders agreed to include a provision in the plan that would allow a portion of the new tax proceeds to fund the hiring of additional police and fire personnel. Ultimately, the City Council amended its use tax to match the MAPS 3 sales tax rate and term, and directed the additional proceeds not only to cover management of MAPS 3 projects and a reserve for future capital needs, but also to provide additional police and fire positions.²⁴

The 11-member MAPS 3 citizen advisory board is considerably smaller than the 21-member board that governed the first MAPS. It is supported, however, by a committee structure that substantially expands public engagement in MAPS 3 governance. Each of the eight city council members nominates one member to represent his or her ward, the mayor appoints two at-large members, and the last position goes to a member of the city council. More than 60 citizens serve on eight subcommittees – one for each of the eight MAPS 3 projects. Chaired by two members from the advisory board, each subcommittee provides input and recommendations to the advisory board.

²⁴ City of Oklahoma City (2012-2013) Adopted Budget. <http://www.okc.gov/finance/fy%202012-2013%20adopted%20budget.pdf>



Key observations that may be relevant to Milwaukee

- ***The MAPS approach avoids imposing long-term obligations on future generations.*** From a taxpayer perspective, perhaps the most appealing advantage to the MAPS model is its ability to complete extensive capital investments without incurring long-term debt and interest payments. In addition, designers of the MAPS approach planned for the cost of ongoing operations, maintenance, and capital replacement on the new and renovated physical structures that continue to dot the Oklahoma City landscape. From tapping earned interest, to leveraging Business Improvement District taxing structures, to embedding a use tax into each project package, MAPS employs an array of tools to address one of the critical downstream consequences of erecting new infrastructure – the need to invest in long-term operations and maintenance. A possible downside of the Oklahoma City cash financing approach, however, is that it assigns the entire cost of investments that are expected to benefit the community for years to come on current residents and users.
- ***MAPS has clearly emphasized downtown development and schools, as opposed to the arts.*** The original motivation for creating MAPS was to improve economic development and quality of life. Yet, unlike other metro areas studied in this report, Oklahoma City did not turn toward large-scale investment in arts and cultural institutions to achieve this aim (with the exception of a downtown performing arts center). This was a consequence of the overriding strategy of assembling packages of projects that, per polling data, were believed to have the best chance to secure majority support from voters. Arts and cultural institutions ended up being largely excluded because they did not generally rise high enough in voters’ minds to make it to the elite list of MAPS projects. While other metro areas (e.g. Denver and Cuyahoga County) did experience strong voter support for dedicated funding for arts and cultural institutions, the Oklahoma City example may create some strategic considerations for those in Milwaukee who would like to merge the needs of arts and cultural institutions with a potential new multi-purpose arena.
- ***The MAPS approach has withstood the test of public confidence.*** Locally, the MAPS initiatives are seen as having fulfilled their public pledges to complete the projects as outlined in the campaigns and within the promised budgets and timeframes. Beyond this generally accepted perspective, it is difficult to discern the wider community impacts directly attributable to the MAPS projects (that is, to establish a cause-effect relationship between MAPS projects and other investments). One reason for this is that only the first MAPS package and the NBA arena have been completed. However, in the Greater Oklahoma City Chamber’s view, the first MAPS iteration unambiguously bolstered public confidence in the transparency and stewardship of the use of public funds. The Chamber and others suggest that such public confidence expanded the impact of MAPS by helping to create a favorable public sentiment toward additional taxpayer investments in public infrastructure, including a series of bond issuances to address school district, city, and county facility needs.
- ***MAPS used active public engagement on the front end.*** One feature of the MAPS model that distinguishes it from the other four models reviewed in this report is its concerted effort to allow the public to weigh in on the specific projects their tax contributions would fund. In the other four



metro areas, citizens or elected leaders were asked to approve competitive or statutorily prescribed processes for determining beneficiaries and award amounts. In contrast, each of the four rounds of MAPS votes presented a package of individual projects that were identified through an extensive public input and outreach process.

- ***MAPS projects define a physical transformation of much of the city's built environment.*** Oklahoma City voters put their tax dollars behind a selection of new (or dramatically renovated) amenities. Because MAPS projects consist almost exclusively of new construction, voters literally could see their tax dollars at work as these new facilities were erected throughout the city. Whether a similar emphasis on new construction would effectively serve the needs of Milwaukee's arts and cultural landscape may come into question, however, given that the region's *existing* cultural assets have such substantial and fundamental needs.
- ***MAPS funding did not appear to negatively impact access to resources for non-MAPS entities.*** A key consideration for communities considering a dedicated source of public funding for arts, cultural, and entertainment facilities is whether the creation of such a funding source might impede other public services or facilities that are not included in the funding mix from meeting their own funding needs. In the case of Oklahoma City, the MAPS projects do not seem to impose an additional fiscal burden on the city that might have funneled resources away from existing services, at least in the short run. In addition, the new projects did not appear to ask substantially more of the philanthropic community than it was already investing. However, as described in the preceding narrative, the majority vote necessary to execute the MAPS plans required some measure of behind-the-scenes negotiation to address concerns of various stakeholder groups.



1.5 Zoo Museum District (St. Louis)

Background

St. Louis was the first metropolitan area in the United States to implement a special tax district dedicated to funding cultural institutions. The Metropolitan Zoological Park and Museum District of the City of St. Louis and the County of St. Louis, now known as the Zoo Museum District (ZMD), was established by Missouri lawmakers in 1969 as a political subdivision of the state. The district gained authority to levy a property tax through a 1971 voter referendum in both the city and county. The extended property tax levy went to support three cultural mainstays: the St. Louis Zoological Park, the St. Louis Art Museum, and the Museum of Science and Natural History (now called the Science Center). Two additional institutions were added later - the Missouri Botanical Garden in 1983 and the Missouri History Museum in 1988.

Zoo Museum District

27.97 cents per \$100 assessed value
property tax
Voter referendum

Allocation

- \$74 million to five subdistricts
- Institutions receive mill rate, specified in statute

Eligible Use

- Unrestricted use: Operating or capital expenditures allowable

Funded Assets

- St. Louis Zoo
- St. Louis Art Museum
- St. Louis Science Center
- Missouri Botanical Garden
- Missouri History Museum

Before the ZMD was established, the City of St. Louis owned the zoo and art museum and provided substantial operating support for both (the science center received no public funds). In fact, the zoo had been funded by a dedicated property tax since its inception. But in the late 1960s, the steadily declining population in the city and the related downward slide in its property tax base spurred city leaders to seek a way to stabilize the fiscal outlook of these cultural assets.

The zoo’s fiscal struggles commanded the most public attention and sympathy among both city and suburban residents, particularly after those struggles became tangible through deteriorating facilities and the threat of new admission fees. In fact, “forever free” was a theme inserted into the enabling legislation, a move that mollified dissenters and continues to bolster public support for the ZMD tax, despite the fact that the zoo and art museum already offered free admission prior to the ZMD’s creation.

The selection of the property tax as the preferred vehicle for delivering enhanced stability to St. Louis’ major cultural institutions occurred not through systematic policy analysis, but for a reason similar to that used to justify the choice of a sales tax in later models – it was a local tax residents already were paying that could simply be extended. Each of the ZMD’s five institutions receives a direct stream of funding according to a separate mill rate on the property tax with no annual application process



required. Of the 27.97 cents per \$100 of assessed value collected by the ZMD, the zoo and art museum each receive eight cents, while the science center, botanical garden, and history museum each receive 3.99 cents, putting all five institutions at their maximum allowable levy rates.

The ZMD legislation allows for additional cultural facilities to be added to the ZMD in addition to the five current institutions, but any addition to the district would require local voter approval and would add to the overall tax levy, rather than redistribute the existing mill rates.^{25 26} The most notable effort to expand ZMD membership involved an attempt to add the St. Louis Symphony, an institution heavily dependent on private donors. Attempts to hold a referendum to add a symphony orchestra subdistrict to the ZMD taxing authority have yet to overcome the symphony's relatively narrow appeal, however.²⁷

Funding Mechanics

Per the state's authorizing legislation, the ZMD's authority to levy property taxes – as well as the rates themselves – remain in place indefinitely. The tax authority can be overturned by voter referendum, however, just as the rates can be raised or restored to previous levels by the same means. Indeed, adjustments to the ZMD taxing authority were put to the voters several times between 1983 and 1993, resulting in an increase in the maximum allowable tax rate for the science center, zoo, and art museum.

In 2012, the ZMD raised \$68.8 million through its real and personal property tax levy. The balance of its operating revenues includes about \$5.5 million from merchants' and manufactures' license fees, a surtax on commercial real estate, and a financial institution tax, with about \$247,000 taken out for an uncollectible taxes provision. The ZMD distributed \$74 million to the subdistricts that administer the five institutions, which are authorized to allocate tax proceeds for both capital and operating purposes at the member institutions. In addition, the ZMD may provide administrative services to the subdistricts – such as auditing, accounting, and payroll – the costs of which may not exceed 5% of the total tax proceeds.

In exchange for the use of ZMD tax proceeds and the freedom to apply them toward operating or capital costs, the subdistricts generally are required to provide free admission to city and county residents, with some exceptions for special programs or specific days of the week. According to the ZMD's 2012 independent audit, support from ZMD tax revenues constitutes a significant share of the operating revenue of each subdistrict institution, with the zoo and art museum receiving roughly \$20 million each year, and the science center, botanical garden, and history museum receiving about \$10 million

²⁵ Missouri Revised Statutes, Chapter 184, the enabling legislation. Also authorizes the ZMD to propose ballot initiatives to fund subdistricts devoted to symphony orchestras, transport museums, recreation and amateur sports, and African American history museums and cultural facilities, but these entities have yet to be included in successful ballot initiatives (Missouri Revised Statutes sec. 184.353, <http://www.moga.mo.gov/statutes/C100-199/1840000353.HTM>)

²⁶ Bonner, Jeff (March 2, 2103) Phone interview.

²⁷ Bassity, Leah (February 11 and 12, 2008) Perspectives on cultural tax districts: Seminar proceedings. Western States Arts Federation and Washington State Arts Commission.

http://www.westaf.org/assets/pdf/perspectives_on_cultural_tax_districts_westaf_2008.pdf



annually. The ZMD estimates that its tax revenues provide about 50% of the annual operating costs for all five institutions collectively. The institutions cover remaining expenses through such sources as private contributions, food and gift sales, membership fees, and special exhibit admission fees.²⁸

The following is a snapshot of the significance of ZMD support at each institution:

- The **St. Louis Art Museum** received \$21.1 million in ZMD revenues in 2012, classifying them as non-operating revenues. Its 2010 biennial report suggests these funds helped finance a major capital expansion begun at the end of 2009.
- The **St. Louis Zoo** received \$21 million in ZMD operating support in 2012, making up 36.3% of its total operating revenues.
- The **Missouri Botanical Garden** received \$10.5 million in 2012 operations revenue, representing 34.5% of its total public support and revenues.
- The **St. Louis Science Center's** 2012 ZMD revenues totaled \$10.5 million, classifying them as non-operating revenues.
- The **Missouri History Museum** received \$10.4 million in 2012, making up 57.2% of its public support that year.

The enabling legislation also authorizes the district to request voter approval to incur debt on behalf of any of the subdistricts for capital needs. Should the voters approve such bond issues, the ZMD is authorized to levy a separate property tax for debt service on the bonds, in addition to the voter-approved tax for the overall district.

Governance

The system of governance for the ZMD and the five subdistricts is relatively complex and is set up to provide equal representation for the city and county. The ZMD is governed by an eight-member board of directors, with four members representing the city (appointed by the mayor of St. Louis), and four members representing the county (appointed by the county executive). Members serve four-year terms.

Similarly, all five subdistricts are governed by 10-member commissions that include five self-nominating citizen members, each confirmed by the mayor and county executive. Each commission also includes four nonvoting advisory members, two of whom are appointed by the mayor and two by the county executive.

While these commissions assume ultimate fiduciary responsibility for the institutions they govern, the commissions authorize the institutions to operate nonprofit arms with their own governing boards that

²⁸ Metropolitan Zoological Park and Museum District (Fall 2008) Building a vibrant St. Louis: Supporting great institutions for more than 35 years. <http://www.mzdstl.org/News/ZMD35thAnniversaryReport.pdf>



oversee privately raised funds and programmatic priorities. In practical terms, an institution's nonprofit board of trustees often acts as a second oversight body in that a subdistrict commission rarely approves substantive budget or other fiduciary policy without approval of the nonprofit boards.

Key observations that may be relevant to Milwaukee

- **ZMD's impact on its member institutions has been transformational, but its reach is extremely narrow.** The ZMD has been an unequivocal success in providing robust and effective support to a small group of elite entities that enjoy strong popularity throughout the region. Because the funds are distributed to so few entities, each receives a significant annual injection. In fact, the roughly \$20 million received annually by both the zoo and art museum is almost a third more than Cuyahoga Arts and Culture distributes to its entire list of 175 organizations. The magnitude of funding flowing from the ZMD tax has propelled the zoo and botanical garden to world-class status, and the three remaining institutions rank among the best nationwide.²⁹ However, despite this strong record of success, efforts to add additional institutions to the district as a way to continue to build the region's arts and cultural infrastructure have not been successful since 1988, and some have questioned whether the emphasis on five institutions has impeded the growth and expansion of small to mid-sized arts and cultural institutions.
- **Use of property tax concentrates costs on residents, not users.** As explained above, state and local elected leaders settled on a property tax approach largely because of the already widespread use of that form of taxation to fund local government services. A consequence of that decision, however, is that the entire public burden of supporting the five ZMD institutions falls on city and county residents and businesses, despite a large proportion of visitors from outside the St. Louis metropolitan area.
- **Free admission has its costs.** The guarantee of free or reduced price admission was a key selling point to voters when they were asked to support a dedicated property tax for major arts and cultural institutions. An unintended consequence of free and reduced price admission at the large ZMD institutions, however, has been the emergence of expectations on the part of many local residents that access to arts and culture always should be free or offered at nominal cost. This may hinder attendance at the vast array of non-ZMD institutions that are forced to charge admission to keep their doors open.³⁰
- **ZMD's governance structure may lack accountability.** Governance of ZMD institutions takes place across multiple jurisdictions including the ZMD itself, the subdistrict commissions, and the nonprofit governance boards of each institution. In some cases, this appears to help ensure public accountability of property tax proceeds, but neither the ZMD enabling legislation nor ZMD policies

²⁹ Metropolitan Zoological Park and Museum District (Fall 2008) Building a vibrant St. Louis: Supporting great institutions for more than 35 years. <http://www.mzdstl.org/News/ZMD35thAnniversaryReport.pdf>

³⁰ Welch, Nancy (December 2005) Perfect pitch: Considerations for a dedicated funding source for arts and culture. Morrison Institute for Public Policy, Arizona State University. <http://sod208.fulton.asu.edu/publications-reports/PerfectPitch-ConsidDedicatedFundForArtsCulture/view>.



and procedures clearly and consistently define the roles and responsibilities of trustees and commissioners at the various governance levels. The result is multiple and sometimes fragmented layers of governance that can leave gaps in accountability. A prominent recent example involves the Missouri Historical Museum, which is under investigation by a state grand jury for alleged wrongdoing on the part of the former president and other officials. One of the higher-profile stories that some believe is fueling the investigation centers on a decision approved by the museum's nonprofit board to acquire land from a former museum trustee and without the approval or knowledge of its governing ZMD commission.³¹

- ***Unrestricted funding promotes both flexibility and stability.*** In providing member institutions with the flexibility to use ZMD tax proceeds for operations or capital needs, the ZMD tax has enhanced the fiscal stability of each subdistrict. For example, when the ZMD was relatively new, the zoo initially used a large portion of its ZMD allocation to building up its capital infrastructure. However, in recent years, the vast majority of ZMD dollars have funded operations. Zoo leaders cite this strategy (coupled with the zoo's ability to offer free admission) as key to its ability to leverage additional private donor support. In the case of the Missouri History Museum, ZMD support has facilitated significant expansion of exhibition space and community outreach programs, driving a dramatic rise in attendance and national recognition.³²

³¹ Hunn, David (April 3, 2013) Steady turnout pushes Arch-Parks tax to win in St. Louis city and county. *St. Louis Post Dispatch*. http://www.stltoday.com/news/local/govt-and-politics/steady-turnout-pushes-arch-parks-tax-to-win-in-st/article_0f75d4b0-9efb-516a-b9d9-4801205cdbbb.html

³² Missouri History Museum (n.d.) Website: MHM/ZMD History. http://mohistory.org/transition/mhm_zmd_history



Overall Observations

Several important observations emerge from our analysis of the experiences of five metropolitan areas that have established dedicated public funding for arts, culture and entertainment. The following summarizes five of those observations that may be particularly relevant to Milwaukee decision-makers.

- **The decision on whether to pursue dedicated funding involves far more than choosing a taxing mechanism.** Discussions regarding a dedicated public funding source for arts, culture, and entertainment in Milwaukee have focused, thus far, on the type and amount of the tax (widely assumed to be a sales tax). Our analysis of other metro areas shows that in addition to that critical element, those advocating for a dedicated funding source will have to think carefully about *eligibility* (what types of institutions and/or projects will be covered); *specificity* (will eligible institutions and/or projects be delineated in statutory language, subject to competition, or will there be a tiered approach); *permanency* (will the funding source be ongoing or time-limited); and *flexibility* (will funds be directed toward operations, capital needs, or both).
- **Transparent and visionary planning is critical.** The experiences in Denver, Cuyahoga County, and Oklahoma City suggest the need for a highly inclusive, transparent planning process that brings as many disciplines and perspectives to the table as possible. Moreover, each city engaged the public not only with the question of how much money was needed, but also with more captivating questions such as “what do we want to be as a region” and “what role do arts, cultural, and entertainment institutions play in helping us to define our region.”
- **The choice of funding instrument must fit the local community.** As shown by the divergent experiences of the five metro areas, there is no cookie-cutter approach to identifying a specific public funding mechanism to support arts, culture, and entertainment. Instead, what can be supported by residents in a sustained way depends on a local community’s history, attitudes toward the role of government at the local level, past experience with local public sector support of cultural assets, and strength of civic identity tied to various assets and institutions. In addition, because any new revenue source is unlikely to be a fiscal panacea for any subgroup of community assets, the new dedicated local public funding tool ideally should round out a balanced portfolio of support from state, regional, local, and private participants.
- **Finding the right mix of large and small institutions is key.** As demonstrated in these five cases, whether the new funding mechanism fosters an environment of collegiality or competition depends on how it is initially designed. No matter how much money is raised, the amount will be finite, meaning that those interested in claiming a part of it will be in competition with others with similar aims. In the Denver, St. Louis, and Pittsburgh regions, the impetus to find a dedicated public funding source was the need to replace lost funding for a small number of flagship entities. That had a profound impact on the ultimate shape of those funding models, as all three are set up to funnel most funding to a small group of large institutions. Yet, while such flagships often are necessary pillars to generate initial public



support, the inclusion of smaller entities in two of the three regions helped broaden the base of support and deter divisive competition.

- **Will dedicated public funding hinder private support?** An important question for Milwaukee policymakers is whether a new public funding source would depress or enhance existing philanthropic support for arts, culture, and entertainment. Our case studies indicate that dedicated tax revenues provided fiscal stability and revenue diversification for institutions in the five metro areas that may not otherwise have been possible, especially for small and medium-sized institutions. Stakeholders in those areas report that with tax dollars covering the costs of core operating functions and routine capital repairs, institutions were able to attract private and foundation dollars with specific appeals for improved program offerings and high-profile capital improvements that had promising earned revenue potential. Whether Milwaukee would experience similar benefits is unclear, particularly given that it is blessed with the largest United Performing Arts Fund in the country and a rich history of philanthropic giving to the arts. This suggests that further research on the potential impact of a dedicated arts and culture tax on UPAF donors and other philanthropists may be in order.



SECTION II:

MODELING CONSIDERATIONS

- 2.1 Milwaukee County-Only Revenue Mechanisms**
- 2.2 Revenue Distribution Limited to Arts, Culture, Recreation, and Entertainment**
- 2.3 Pros and Cons of Potential Dedicated Revenue Sources**
- 2.4 How Milwaukee County's Sales, Property, and Sin Taxes Compare to Others**
- 2.5 The Question of Governance**

Introduction

The preceding review of the dedicated funding mechanisms used by five other metro areas – combined with the findings from our December 2013 needs assessment report – provoke contemplation regarding how various dedicated funding approaches for cultural and entertainment assets might be constructed in Milwaukee County. In Section 3, we seek to answer that question by creating four hypothetical funding models that we derive from the examples in the previous section.

Before describing and reporting the results of those models, we felt it was important to discuss several important considerations that are central to understanding their hypothetical nature and assessing their possible application in Greater Milwaukee. In particular, it is important for readers to recognize that the very nature of a modeling exercise requires those constructing the model to make important assumptions that drive the model's content and results. In this case, those assumptions included:

- The specific projects and types of organizations that might receive dedicated public funding.
- The public-to-private funding ratio for major projects.
- The amount of funding that would be required to appropriately meet the operating and capital needs of various institutions.
- The geographic area that would be covered by any new taxes or fees.

Evaluating the advantages and disadvantages of each of our models also requires consideration of several issues that are not directly within the scope of this report, such as the pros and cons of various types of taxes, how the use of different revenue options would impact the tax “burden” of individual citizens, and how decisions on funding mechanisms might relate to the governance of cultural institutions and parks.

In this section, we provide more detailed information and explanation regarding key assumptions used in our models, as well as perspective on the related issues referenced above. Our aim is to help readers better understand and evaluate the four distinct modeling approaches, and to consider how different assumptions might produce different results that could influence the appeal of each individual model.



2.1 Milwaukee County-Only Revenue Mechanisms

For each of the four dedicated funding approaches described in Section 3, we apply the financing mechanism only within the boundaries of Milwaukee County. We acknowledge that alternatively, our modeling could have been applied to the seven-county Southeast Wisconsin Regional Planning Commission region; the five-county Professional Baseball Park District region; the four-county Standard Metropolitan Statistical Area; or just the City of Milwaukee.

Our decision to use a Milwaukee County-only approach for this analysis was predicated on three primary considerations:

- A primary impetus for this report was concern about the physical condition of Milwaukee County-owned cultural institutions and parks. Consequently, any new funding source created to address that concern logically would be applied to Milwaukee County residents and businesses.
- The one previous instance in which voters were able to weigh in on (and ultimately support) a dedicated funding source for cultural institutions and parks was the 2008 referendum on a one-cent sales tax in Milwaukee County to replace property tax allocations and enhance funding for those needs, as well as for transit and emergency medical services. It was logical, therefore, to remain consistent with that example.
- Had we extended our modeling to a larger geographic region, it would have been appropriate to consider the allocation of revenues generated in each model to cultural and entertainment assets throughout the larger region. That, in turn, would have required us to expand our needs assessment activities to dozens of additional facilities in adjacent counties, which was beyond our capacity.

While these considerations related to project scope and precedence guided our decision to limit our revenue models to Milwaukee County, other considerations might have produced a different decision. For example, as shown in **Table 1**, major cultural and entertainment assets located in Milwaukee County generate their members and attendance from a much wider geographic sphere, thus suggesting that any dedicated funding source that is intended to address the needs of those assets might justifiably be applied proportionally to a multi-county revenue base.



Table 1: Attendance percentages for certain arts and cultural assets by county of residence*

	Milwaukee	Waukesha	Ozaukee	Racine	Washington	Other
Members						
Milwaukee Art Museum	58%	14%	8%	3%	2%	15%
Milwaukee County Zoo	41%	31%	4%	4%	7%	12%
Ticket sales						
Marcus Center - Broadway	41%	27%	6%	5%	6%	14%
First Stage	49%	24%	7%	3%	2%	14%
Milwaukee Ballet	46%	20%	9%	4%	4%	16%
Milwaukee Repertory Theater	47%	23%	7%	4%	4%	15%
Milwaukee Symphony Orchestra	49%	22%	7%	4%	4%	13%
Skylight Music Theatre	52%	14%	16%	3%	4%	11%

Source: Data for ticket sales provided by Marcus Center and UPAF. Membership data provided by relevant entities.

* Entities cited in this table were those examined in our December 2013 report for which reliable five-county attendance breakdowns could be obtained.

This report does not address the pros, cons, or political efficacy of broader regional participation in a new dedicated funding source to address the needs of major cultural and entertainment assets in Milwaukee County. We do recognize, however, that this issue will play a prominent role in the funding debate.

Consequently, in **Table 2**, we show the estimated amount of revenue that various potential dedicated funding mechanisms would generate in each of the five counties that comprise the Southeast Wisconsin Professional Baseball Park District. The availability of this information will allow readers and policymakers to consider for themselves how the inclusion of other counties in the funding mix would impact the size and/or duration of specific revenue mechanisms considered in our models.

Table 2: Potential annual revenue generated from various funding mechanisms

	Milwaukee County	Ozaukee County	Racine County	Washington County	Waukesha County	Five-county region
Sales tax of 0.5%*	\$62,262,613	\$7,603,089	\$13,434,177	\$9,194,885	\$38,254,857	\$130,749,620
Sales tax of 0.1%*	\$12,452,523	\$1,520,618	\$2,686,835	\$1,838,977	\$7,650,971	\$26,149,924
Prop. tax mill rate of \$0.10	\$5,778,230	\$1,031,632	\$1,411,699	\$1,298,965	\$4,772,701	\$14,293,228
Cigarette tax of \$0.30/pack	\$11,747,079	\$1,071,814	\$2,418,176	\$1,637,584	\$4,834,086	\$21,708,740

Source: Revenue amounts are approximate and are based on the most recent data available from the Wisconsin Department of Revenue

* Wisconsin counties have been granted authority by the State of Wisconsin to levy a local-option county sales tax of up to 0.5%. Milwaukee, Ozaukee and Washington counties have exercised that option and have a current sales tax of 5.6%, while Racine and Waukesha counties have not and have a current sales tax of 5.1%.



2.2 Revenue Distribution Limited to Arts, Culture, Recreation, and Entertainment

Another important modeling decision was our limitation of the use of dedicated funding proceeds exclusively to arts, cultural, recreational, and entertainment institutions. This decision was based on the scope of our original research design, which was to focus solely on the needs of organizations and assets in those four areas. That does not mean, however, that new funding sources considered to address needs in those areas could not also be designed to address other needs. In fact, as discussed in the previous section, funding mechanisms used by other metro areas to support arts, cultural, and entertainment institutions have been broadened to also include libraries, streetcar lines, schools, and various other community assets.

There is a lengthy list of additional Milwaukee-area projects, institutions, entertainment facilities, and government functions not included in our modeling that might logically benefit from dedicated public funding. In particular, the following four examples could have been included in one or more of our funding models based on their similarity to projects or needs that were addressed in funding models used by other metro areas, or based on previous public discussion.

- **Milwaukee County Federated Library System (MCFLS)** – The MCFLS coordinates the activities and ensures resource-sharing among the 15 municipal library systems in Milwaukee County. About \$2.7 million of the system’s \$4.1 million budget comes from the State of Wisconsin. It also receives a small annual appropriation from the county (about \$66,000), federal grant funds, and various fees from its members, who join voluntarily. A new dedicated funding source for culture and entertainment could help MCFLS support library operations throughout the county, the capital needs of existing libraries, and/or construction of new libraries, similar to Allegheny County. On the operating side, public libraries have encountered challenges in several municipalities given the need to compete for scarce resources with functions like public safety and public health. The Milwaukee Public Library (MPL), for example, saw its overall budget decline by 17% from 2002 to 2012 on an inflation-adjusted basis, while its full-time-equivalent employees and hours declined by 16%. On the capital side, libraries also compete for funding for buildings and equipment against other high-profile needs (e.g. police/fire equipment and local streets). At least one MCFLS member, the North Shore Library, currently is seeking to raise funds for a new library building, and MPL also has substantial capital needs and is seeking resources for building upgrades and replacement.
- **Milwaukee Streetcar** – The Milwaukee Streetcar is a proposed 1.9-mile streetcar line that would connect several destinations in Downtown Milwaukee. The proposed system currently has a price tag of \$64.6 million, with \$54.9 million to be paid with federal funds and the remaining \$9.7 million to be financed by the City of Milwaukee. The non-farebox share of operating costs also is to be paid with city revenue sources. City leaders see the 1.9-mile system as a “starter” system that they hope will be expanded as additional federal funds are identified and the initial system gains popularity with citizens. A dedicated funding source for culture and entertainment could be used to support



the non-federal share of constructing the initial line, streetcar operations, or streetcar expansion, as occurred in Oklahoma City.

- **School Athletic Facilities** – Common Ground, a coalition of religious and civic organizations, has launched a “Fair Play” campaign that is working to ensure that a portion of any public funds generated to build a new multi-purpose arena also be used to address the needs of school athletic facilities throughout Milwaukee County. According to a preliminary analysis released by the group in June 2013, 65% of the 268 athletic/recreational spaces at the county’s public school districts are in terrible, poor, or fair condition. The group also estimates that addressing the needs of those facilities would cost between \$143 and \$218 million. A new dedicated public funding source for cultural, recreational, and entertainment facilities also could be used to support the needs of school playgrounds and athletic facilities, regardless of whether a new arena is included in the funding mix.
- **Milwaukee Public Safety** – In his 2013 State of the City address, Milwaukee Mayor Tom Barrett suggested that any plan to generate public funds for a new basketball arena also must address other city needs, such as police, fire, and infrastructure. Previously, in the debate over a new half-cent sales tax to fund mass transit in Milwaukee County, the mayor specifically suggested that an additional .15 cents be added to support public safety services. City leaders have long complained that declining shared revenues from the State of Wisconsin – and, more recently, their inability to apply the provisions of Wisconsin Act 10 to public safety unions – are a threat to the continued provision of police and fire services that will meet the needs of both city residents and non-residents who work in Milwaukee or visit its cultural and entertainment attractions. A new funding source for cultural, recreational, and entertainment facilities also could include an allocation for public safety operations in Milwaukee or countywide to help maintain or enhance existing levels of police, fire, and/or emergency medical services.

While the modeling in the next section does not include consideration of these and several other potential projects and needs, it would be relatively simple for those who support the inclusion of additional elements to determine the amount of additional funding that would be required. For example, generating \$150 million to address the needs of school athletic facilities on a cash financing basis would require \$15 million per year over 10 years, or about an extra .12% Milwaukee County sales tax based on current sales tax collections.



2.3 Pros and Cons of Potential Dedicated Revenue Sources

The five dedicated funding mechanisms reviewed in the previous section – which form the basis for our modeling in the next section – were selected, in part, to illustrate distinctions between the various forms of broad-based taxes that may be suitable for use as a dedicated public funding source to support cultural and entertainment assets. The five regions rely on one of three types of tax for their dedicated funding mechanism: the sales tax,³³ property tax, and sin tax. Below, we outline some of the general pros and cons associated with those revenue sources.

Sales Tax

Advantages

- ***Taxpayer feels the pinch, but only in small doses.*** In contrast to the annual or periodic payments of the property tax, a sales tax is paid in smaller increments at the time that various purchases of consumer goods are made. The total financial hit never appears to the taxpayer in the aggregate, and so can be more palatable than an equivalent burden through a property tax bill.
- ***Long-term growth and stability.*** While sales tax revenues are impacted by the local economy and can be volatile from year to year, the sales tax generally has been found to generate stable and sustainable long-term funding that grows over time and keeps pace with inflation. (That stability has diminished somewhat, however, with the growth of internet sales, which have eroded the sales tax collections of state and local governments.)
- ***Incidence based on use, not location of residence.*** A sales tax extends the tax burden for local government services to non-residents. Visitors and commuters use public services within taxing jurisdictions when they travel or work there, and they can help pay for services when they make purchases within those jurisdictions if a local sales tax is in place. Having some portion of a dedicated tax for cultural and entertainment assets paid by residents of adjacent counties also recognizes the broader regional benefits that those assets generate, and the fact that substantial patronage comes from the region as a whole.
- ***Milwaukee's sales tax is relatively low.*** According to a recent study compiled by the Tax Policy Center, a collaborative effort between the Urban Institute and the Brookings Institution, Milwaukee County falls within the top 5% in terms of highest property tax burden for all counties with populations of more than 65,000. Meanwhile, our comparison of Milwaukee County's sales tax rate

³³ The terms “sales tax” and “sales and use tax” often are used interchangeably. The “use tax” component generally refers to a tax that is assessed on an individual for the purchase of an item in another state that is not otherwise subject to a sales tax, and that is used, stored, or consumed in that individual's state of residence. Many states that employ sales taxes – including Wisconsin – also assess use taxes at the same rate. The use tax typically comprises a very small share of overall sales and use tax collections. In this section – and in the remainder of the report – when we refer to a “sales tax,” we are referring either to a sales tax or a sales and use tax.



with those of the five metro areas reviewed in the previous section shows that its 5.6% rate is by far the lowest. This suggests there is more room for growth in the county's sales tax than there is for the property tax if any form of tax increase is to be considered.

Disadvantages

- **Possible short-term volatility.** While the sales tax generally is a revenue source that provides long-term growth and stability, this form of taxation can be volatile relative to other public revenue sources in terms of year-to-year impacts. Sales tax revenues are particularly susceptible to severe declines during times of recession given the impact of economic downturns on consumer spending and retail sales. While sales tax revenues typically are quick to rebound once the economy recovers, short-term impacts can be substantial.
- **Potential regressivity.** Because low-income individuals typically spend greater proportions of their income on everyday necessities, the sales tax often is cited as a regressive tax that unfairly burdens the poor. Targeted exemptions on items like food and medicine (which currently exist in Wisconsin) can address that issue, but some still see the sales tax as more regressive than the income or property tax, which are tied to the value of one's salary or property.
- **"Tax island" impacts.** A large differential in one county's local sales tax rate relative to neighboring counties could induce consumers to shop outside of the county to avoid the tax. This so-called "tax island" impact can harm local merchants and also reduce the revenue-generating capacity of the sales tax, especially in the case of purchases of expensive luxury items.

Property Tax

Advantages

- **Fair allocation of cost of public goods.** Some argue that the property tax is a relatively accurate measure of all of the public goods and services from which taxpayers can expect to benefit when they make their decision about where to own property. Consequently, the property tax fairly allocates the cost of such public goods to those who are willing to pay for them. A related view suggests that investing in local cultural and entertainment assets is an investment in local economic development and should arguably be paid for by those who benefit from such economic development most – local businesses and residents.
- **Stable source of local government revenue.** By some accounts, the property tax is the most stable of all state and local revenue sources. It is relatively insulated from episodic economic swings, and it is difficult to avoid, as property is immobile. In addition, it typically takes time for reductions in housing values to ripple through the property tax system, and local governments have some ability



to mitigate the impact of declining property values by raising property tax rates. As such, the property tax can provide predictable and dependable income during economic downturns.

- **Possibly less regressive than a general sales tax.** Some see the property tax as less regressive than the general sales tax in that the property tax burden increases with the value of one's home, and home values typically are linked to income and/or ability to pay. In addition, many low-income individuals do not own homes and are not subject to the property tax, though those who rent pay property taxes indirectly depending on the extent to which those taxes are included in their rent amount.
- **Federal tax deductibility.** Wisconsin residents have the ability to deduct their local property tax payments on their federal income tax returns, thus reducing the financial burden of property tax payments. No such deduction exists for sales or excise taxes.

Disadvantages

- **Locals unfairly subsidize benefits to outside visitors.** Despite the benefits local residents enjoy from a thriving arts and cultural sector, some argue that it is unfair to use the property tax alone to cover the sector's public support. Because the property tax is paid directly by local residents, it effectively exempts outside visitors and tourists who benefit from the facilities from contributing to the cost of their operation and maintenance. (This can be mitigated somewhat by charging higher admission fees to non-residents.)
- **High property taxes can discourage real estate investment.** Some argue that differences in property tax rates between jurisdictions can impact people's decisions about where to own property, discouraging them from purchasing homes or locating businesses where the rates are highest.
- **Milwaukee County's property taxes already are high.** As noted above, residential property tax rates in Milwaukee already exceed those of most other major U.S. cities, suggesting that other taxing options may be more appropriate. In addition, it should be noted that the property tax can be especially burdensome for low-income homeowners and those on fixed incomes, especially in areas of the county with high population growth where property values are on the rise.
- **Flipside of revenue stability: flat growth.** While property tax collections tend to be less volatile than other forms of taxation, the downside is relatively flat year-to-year growth because of the relative inelasticity of property value growth. This is a particular issue in areas that are largely built-out and not able to support new development. In addition, property tax growth in Wisconsin typically has been limited by annual "caps" approved as part of the biennial state budget.



Sin Taxes (e.g. Cigarette, Alcohol Taxes)

Advantages

- **Short-term revenue stability.** Sin taxes on consumer products such as cigarettes can be stable revenue generators in the short run, as consumers have few substitute products to which to switch as a way to avoid the tax.
- **May discourage harmful behavior.** Sin taxes have an indirect efficiency benefit in that they tend to promote healthier consumer behaviors that can reduce ancillary social costs, such as those linked to health care. They also more fairly distribute health-related and other costs that arise from the use of harmful substances. (It should be noted, however, that a reduction in the harmful behavior can reduce the amount of revenue generated by the tax in the long run.)
- **May be less unpopular than general taxes.** Given that some sin taxes (e.g. a cigarette tax) do not affect most citizens, they may present a more politically acceptable option that may attract greater voter support at the polls than a general taxing mechanism.

Disadvantages

- **Time-limited shelf life.** Because sin taxes create a disincentive to consume the taxed product, the tax base on which they are levied may diminish, limiting the capacity of the tax to produce a long-term, stable revenue source.
- **Potentially regressive and discriminatory.** Some sin taxes may discriminate against relatively small groups of economically disadvantaged citizens. In Wisconsin, for example, smoking rates tend to fall as income levels rise.
- **Potentially harmful impacts on local economy.** As with the sales tax, a sin tax in a limited geographic area may cause consumers of the taxed item to make their purchases in adjacent jurisdictions, thus harming local merchants. In addition, if citizens are paying more for items like alcohol and tobacco because of a sin tax, they may have less disposable income to use for other local purchases.

Finally, it is important to emphasize that while the modeling in this report focuses on three broad-based types of taxes as possible sources of revenue to support cultural and entertainment assets, there are dozens of other revenue-raising options that could be considered. This particularly would be the case if the emphasis is on a narrowly defined geographic area or a limited number of assets, in which case the use of tax incremental financing and/or specific admissions-related fees might be used to replace or complement broader sources of public funding. **Table 3** shows several examples of revenue sources used in other states or jurisdictions to support arts, culture, and entertainment.



Table 3: Additional revenue sources used to support arts, culture, recreation, and entertainment

Revenue Source	Selected Location(s)
Real estate transfer tax	Aspen (CO), Connecticut
Admissions/amusement tax	Chicago, St. Louis, Seattle, Portland
Lodging tax	King County (WA), San Francisco, St. Louis
Development impact fees	Los Angeles, Mesa (AZ)
State lottery	Massachusetts, Arizona
Income tax check-off	Arizona
Special license plate	California, Georgia, Pennsylvania, Texas
Athletes & entertainers tax	Missouri



2.4 How Milwaukee County’s Sales, Property, and Sin Taxes Compare to Others

The debate about whether and how to establish new or enhanced public funding sources to support arts, culture, and entertainment in Milwaukee County inevitably will include consideration of the current “tax burden” experienced by county residents. To provide context in that regard, we developed tax rate comparisons between Milwaukee County and the other five metropolitan areas reviewed in this report.³⁴

We focus on the property tax, sales tax, and sin taxes. As discussed above, while these three taxes do not encompass the breadth of taxes and fees that support state and local government in our region and across the country, they are the three primary forms of taxation used by the five metro areas to support the cultural and entertainment funding approaches we studied, and they are the three forms we use in our financial modeling.

In **Table 4**, we first compare the size and wealth of the five metro areas to Milwaukee County. Milwaukee County’s population exceeds that of Oklahoma City and Denver, and it is in line with the other three metros (Allegheny, Cuyahoga, and St. Louis counties) that have similar county governing structures. With regard to wealth, Milwaukee has the *lowest* median household income and the *highest* percentage of individuals living in poverty.

Table 4: Population and wealth

	Milwaukee County Wisconsin	Oklahoma City Oklahoma	Allegheny County Pennsylvania	Denver (City/County) Colorado	Cuyahoga County Ohio	St. Louis County Missouri
Population (2012)	955,205	599,199	1,229,338	634,265	1,265,111	1,000,438
Median household income (2008-2012)	\$43,599	\$45,704	\$50,664	\$49,091	\$43,861	\$58,630
% below poverty level	20.9%	17.6%	12.7%	18.9%	17.7%	9.7%

Source: U.S. Census Bureau

It is well-documented that local governments in Wisconsin rely heavily on the property tax. In fact, not only municipal and county governments, but also school districts and technical colleges rely on property tax levy to support a substantial percentage of their operations. In Milwaukee County, property taxes levied by those entities, the sewerage district, and other sources added up to a gross property tax rate of \$29.15 per \$1,000 of equalized value in 2012.

Comparing property tax rates across states can be rather complex and must take into consideration varying methods in applying those rates to different types of properties, as well as the various tax

³⁴ Because our point of comparison is Milwaukee County (as opposed to the City of Milwaukee or the metropolitan statistical area), our comparative analysis defines the other metro areas as either the county in which the area’s major city is located, or the city itself if it is not entirely part of a county or the city and county are identical.



credits that may be in place to reduce property tax liabilities. The Tax Policy Center analysis referenced earlier compared the level of property taxation for communities nationally by calculating average property tax payments as a percentage of home values. **Table 5** provides this data for Milwaukee County and the other five metro areas under review. The data show that when measured in this manner, Milwaukee County has the highest property tax burden among the six metros.

Table 5: Comparison of property tax burdens, 2012

	Milwaukee County Wisconsin	Oklahoma City Oklahoma	Allegheny County Pennsylvania	Denver (City/County) Colorado	Cuyahoga County Ohio	St. Louis County Missouri
Average home value	\$153,200	\$126,900	\$121,900	\$251,200	\$134,900	\$170,900
Average property taxes paid	\$3,918	\$1,372	\$2,629	\$1,390	\$2,817	\$2,385
Average taxes as a % of average home value	2.56%	1.08%	2.16%	0.55%	2.09%	1.40%

Source: State and Local Government Finance Initiative of the Urban Institute-Brookings Institution Tax Policy Center

An analysis of sales tax rates paints a much different picture. As shown in **Table 6**, while the other communities have aggregate sales tax rates (i.e. a combination of state and local sales taxes) that range from 7% to 8.38%, Milwaukee County's is the lowest at 5.6%. This is primarily attributable to higher city and county sales taxes in the other metro areas; in fact, the *state* sales tax rate in Wisconsin is third-highest among the peer group. In Milwaukee County, local general sales taxes are limited by state law to the half-cent levied by Milwaukee County and the tenth-of-a-cent levied by the Southeast Wisconsin Professional Baseball Park District. (The Wisconsin Center District also levies a half-cent sales tax for certain food and beverage sales in Milwaukee County.)

Table 6: General sales tax comparison, 2014

	Milwaukee County Wisconsin	Oklahoma City Oklahoma	Allegheny County Pennsylvania	Denver (City/County) Colorado	Cuyahoga County Ohio	St. Louis County Missouri
State	5.00%	4.50%	6.00%	2.90%	5.75%	4.23%
County	0.50%	0.00%	1.00%	0.00%	1.25%	2.88%
City (tax rate of largest city)	0.00%	3.88%	0.00%	3.62%	0.00%	1.25%
Other	0.10%	0.00%	0.00%	1.10%	1.00%	0.00%
Combined	5.60%	8.38%	7.00%	7.62%	8.00%	8.36%

Excise taxes in Wisconsin are levied only by state government for state purposes. In **Table 7**, we show how cigarette, beer, liquor, and wine taxes compare for residents of the six metro areas. It is important to keep in mind that in other metro areas, the size of the tax may result from a combination of state and local excise taxes. This comparison shows that Milwaukee County residents pay the largest cigarette tax of the six metro areas, with its tax (levied by the state) 60% higher than that of the second-highest metro, Allegheny County. Conversely, Milwaukee County residents pay the lowest beer and wine taxes.



Table 7: Comparison of various excise taxes, 2013

	Milwaukee County Wisconsin	Oklahoma City Oklahoma	Allegheny County Pennsylvania	Denver (City/County) Colorado	Cuyahoga County Ohio	St. Louis County Missouri
Cigarette excise tax (per pack of 20 cigarettes)	\$2.52	\$1.03	\$1.60	\$0.84	\$1.60	\$0.22
Beer tax (per gallon)	\$0.06	\$0.40	\$0.08	\$0.08	\$0.18	\$0.06
Distilled liquor tax (per gallon)	\$3.25	\$5.56	*	\$2.28	*	\$2.00
Wine tax (per gallon)	\$0.25	\$0.72	*	\$0.28	\$0.30	\$0.42

*Sales are more directly regulated by the state, with revenues generated from various taxes, fees, mark-ups, and net profits.

Source: State and Local Government Finance Initiative of the Urban Institute-Brookings Institution Tax Policy Center

A complete comparison of the “tax burden” experienced by taxpayers in the metro areas also would need to include the wide variety of taxes and fees that are used in different jurisdictions, including income taxes, vehicle registration fees, fuel taxes, lodging taxes, and many others. In addition, tax credits that are available in different states and localities would need to be considered. Nevertheless, the above discussion provides important context for those considering three common forms of taxation used in other metro areas to provide dedicated support for cultural and entertainment assets.

Finally, because we surmise that readers will be interested not only in the size of various taxes that might be considered for different funding models, but also in the possible impacts on their personal finances, **Table 8** shows examples of various dedicated taxes used in our modeling and their potential annual impact on individual Milwaukee County residents. The actual impact of each tax will vary from person to person, with income level and spending habits being significant determinants.

Table 8: Hypothetical annual impact of potential arts, culture, and entertainment funding mechanisms

Tax	Amount raised in Milw. Cty.	Annual cost per individual*	Cost basis
Sales tax of 0.5%	\$62.2 million	\$150	Consumer who spends \$30,000 annually on sales tax-eligible items**
		\$100	Consumer who spends \$20,000 annually on sales tax-eligible items
		\$50	Consumer who spends \$10,000 annually on sales tax-eligible items
Sales tax of 0.1%	\$12.5 million	\$30	Consumer who spends \$30,000 annually on sales tax-eligible items
		\$20	Consumer who spends \$20,000 annually on sales tax-eligible items
		\$10	Consumer who spends \$10,000 annually on sales tax-eligible items
Mill rate of \$0.10	\$5.8 million	\$15.32	Reflects per household expenditure based on the average home value of \$153,200 in Milwaukee County
Cigarette tax of \$0.30/pack	\$11.7 million	\$62.40	Reflects per smoker expenditure based on purchase of four packs of cigarettes per week

* The hypothetical cost impacts shown in this table are based on broad assumptions and are provided for illustrative purposes only.

** The average per capita income in Milwaukee County is \$24,524, so annual spending amounts should be viewed in that context.



2.5 The Question of Governance

To the extent that there is interest in Greater Milwaukee in creating a new dedicated public funding source for arts, culture, and entertainment, questions of governance will be of central importance. For example:

- Should the authority to levy, collect, and allocate a new dedicated tax be granted to an existing governmental body and, if so, which one?
- Conversely, should a new special district be created to levy, collect, and allocate the new tax?
- If a new special district is created, should the district's primary purpose involve governing the dedicated funding source, or should it also own and administer the operation of the assets?

In each of the five metro areas discussed in the previous section, new governing bodies were formed to administer the distribution of dedicated funding sources (or, in the case of Oklahoma City, to oversee the construction of funded projects). In none of those cases, however, was direct management and ownership of the cultural or entertainment assets transferred to the new districts or councils.

Examples of special taxing districts that also own and administer cultural and entertainment assets are most common when it comes to park districts (e.g. the Chicago Park District and the Minneapolis Park and Recreation Board) and entertainment/tourism districts (e.g. the Wisconsin Center District). The Rockford Park District in Rockford, Illinois, is an example of a special district that owns and levies taxes to support both parks and cultural institutions, as natural history, science, and art museums fall under that district's purview.

The Public Policy Forum wrote extensively about the pros and cons of special districts and authorities in a 2010 report on structural reform of Milwaukee County government.³⁵ We noted that the county operates a vast array of diverse programs that must compete for a shrinking set of resources, and that one way to reduce such competition would be to transfer specific functions, such as arts and cultural institutions, to a separate district.

Under this approach, annual funding for the arts and culture function no longer would be established by the county budget process, but instead would be determined by the amount generated by whatever funding source is created to support the district. Meanwhile, the allocation of funds would be overseen by a new board of directors whose sole focus would be arts and culture. This approach also carries tradeoffs, however, including the establishment of a new layer of government that would require its own staff and administrative infrastructure.

The following summarizes some additional considerations surrounding the possible creation of a special arts and cultural district (which also could include parks and entertainment assets) in Milwaukee County:

³⁵ (*Should it Stay or Should it Go*, available at <http://publicpolicyforum.org/sites/default/files/MilwaukeeCountyStructure.Full.pdf>).



- **Elimination of competition with non-cultural needs may be harmful to taxpayers.** From a taxpayer point of view, there is a concern with creating too many special dedicated taxes and too many governing boards with authority to levy taxes and/or allocate public resources. In fact, one of the reasons so many diverse functions originally were consolidated under the purview of Milwaukee County was the desire to have one elected body prioritize among a wide variety of programs and services and make difficult spending choices, as opposed to having multiple governing boards that each have authority to establish or advocate for more resources to address their own needs.
- **Elimination of competition allows specific functions to be funded at levels citizens desire.** The converse to that argument is that the resources available to support the county's cultural, recreational, and entertainment amenities should be defined by what citizens specifically want and are willing to pay for within that realm, as opposed to how much is left over after competition with non-related government functions like mental health, courts, or jails. Directing the funds to a special district eliminates any threat of such competition and also would provide the institutions with greater certainty about funding, which is essential for long-term planning.
- **A special district could enhance transparency and reassure a skeptical public.** Providing funding for arts and cultural facilities through a separate district insulates those funds from the complexity of larger local government budgets and assures voters that the funds will be used for their intended purpose, as opposed to being indirectly siphoned off to support other governmental needs. Furthermore, community-wide planning for both the immediate and long-term operations and capital needs of these assets could be enhanced and made more transparent through the singular focus of a special district.
- **A special district may be linked to a regional funding approach.** If policymakers wish to pursue a multi-county approach for dedicated funding, then it likely would be problematic to have the funds collected and distributed by a single county. In fact, creation of a regional district to collect and distribute the funds would appear to be an imperative under such a scenario, and officials from suburban counties also might insist on regional district governance or ownership of the assets if their tax dollars would be helping to support them.
- **A new special district may not be necessary.** Those interested in creating a special district to govern a new dedicated funding source potentially could look to an existing special district or governing body to fulfill that role. The Wisconsin Center District, Bradley Center Board, and Southeast Wisconsin Professional Baseball Park District all are state-created bodies that hypothetically could be reconstituted, combined, or re-engineered to address the objectives of a new arts, cultural, and entertainment funding source. Examining that possibility also may be an opportunity to explore whether efficiencies could be realized by combining one or more of those entities regardless of whether a new funding source is adopted.



SECTION III:

**MODELING FOUR ILLUSTRATIVE APPROACHES
FOR DEDICATED ARTS, CULTURAL,
RECREATIONAL, AND ENTERTAINMENT
FUNDING IN MILWAUKEE COUNTY**

- 3.1 Hypothetical Model #1: Major Capital Projects Approach (Oklahoma City)**
- 3.2 Hypothetical Model #2: Comprehensive Tiered Approach (Allegheny County/Denver)**
- 3.3 Hypothetical Model #3: Supplemental Funding Approach (Cuyahoga County)**
- 3.4 Hypothetical Model #4: High-Quality Public Assets Approach (St. Louis)**

Introduction

In this section, we use the findings from our December 2013 needs assessment report and our analysis of five other metro areas to model four distinct hypothetical approaches for creating a dedicated arts/culture/entertainment funding source in Milwaukee County:

- **Major capital projects approach (Oklahoma City)** – This model uses a limited-term sales tax to *cash finance several pre-selected capital improvement projects* in Milwaukee County. Four sub-models are created: one that solely funds arts and cultural projects; a second that adds the parks; a third that adds both the parks and the publicly-funded share of a new basketball arena; and a fourth that adds the parks, a new arena, and an expanded convention center.
- **Comprehensive tiered approach (Allegheny County/Denver)** – This model uses a permanent sales tax to *replace the property tax* as the source of public operating support for county-owned arts and cultural institutions, as well as to provide enhanced support for a wide variety of other arts, cultural, recreational, and entertainment institutions. A *tiered approach* is used to designate specific portions of the tax proceeds to specific classifications of assets. Again, four sub-models are constructed, including one that uses tax proceeds exclusively for capital projects and debt service.
- **Supplemental funding approach (Cuyahoga County)** – This model uses a *limited-term* cigarette tax for competitive grants that *supplement* existing public support for arts and cultural organizations. Two separate tiers are created: one for general operating support grants and one for project support grants. An additional sub-model is constructed that would dedicate the supplemental funding only to debt service on capital projects.
- **High-quality public assets approach (St. Louis)** – This model uses an ongoing *dedicated mill rate* on the property tax to support and enhance the operations of *major county-owned* arts and cultural institutions. Two sub-models are created: one that adds the parks, and a second that covers both operating expenditures and debt service costs with the dedicated property tax resources.

These models were designed to illustrate how major aspects of the funding approaches discussed in Section 1 hypothetically could be applied in Milwaukee County. It is important to recognize that there are countless variations of these models – as well as countless additional dedicated funding models – that could be employed by Milwaukee County decision-makers. We developed these four models based solely on their perceived applicability to Milwaukee and their usefulness in illustrating the decision points associated with distinct funding approaches. Their use in this report does not reflect a recommendation that any or all of these models be actively considered by policymakers.

In addition, because our models reflect approaches that encompass a broad range of assets in Milwaukee County, they employ broad funding mechanisms (i.e. sales, property, and sin taxes). Scenarios that only involve a new multi-purpose arena, or that focus exclusively on Downtown Milwaukee, also might consider narrowly-focused funding mechanisms, such as tax incremental financing, admissions/usage fees, or special taxes for athletes and entertainers.

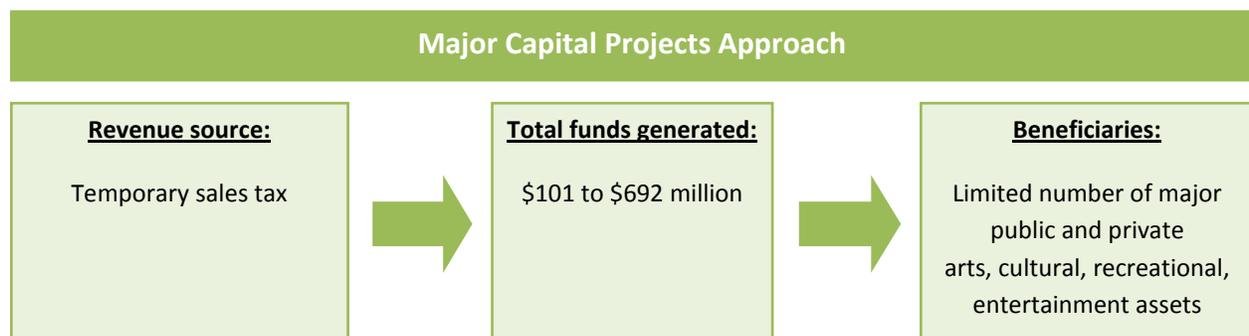


3.1 Hypothetical Model #1: Major Capital Projects Approach (Oklahoma City)

A major capital projects approach that mirrors the Oklahoma City MAPS model is used to illustrate how a temporary sales tax could be used to finance a limited set of major capital improvement projects in the cultural and entertainment realm. In constructing this model, we are able to show the amount and duration of a temporary Milwaukee County sales tax that would be required to finance various tiers of regionally-significant projects on a “cash finance” (i.e. pay-as-you-go) basis. Such a tax would need to be authorized by state legislation.

As described in Section 1, the Oklahoma City MAPS model has the following key characteristics:

- **Temporary sales tax** approved by voters for a specified package of capital improvement projects.
- Projects are **cash financed**, which generally means that no debt is issued, and ground is not broken until the dedicated sales tax generates enough revenue to finance current construction.
- Projects generally are selected based on their potential to **enhance quality of life** in the city as a whole, rather than in smaller geographic areas or individual neighborhoods.
- Projects are assembled using **extensive market research** that is geared toward determining the mix required to garner support from a majority of voters.



Our hypothetical modeling in this subsection consists of four separate sub-models: one that includes projects for arts and cultural organizations; a second that adds the parks; a third that adds both the parks and the publicly-funded share of a new multi-purpose arena; and a fourth that adds the parks, a new arena, and an expanded convention center.

The capital improvement projects included in these models were identified through our research and deemed to be consistent with the principles contained in the Oklahoma City model. To determine the size of the sales tax needed to finance the projects in each tier, we first determine the amount of funds required to pay for each set of projects over an eight-year timeframe, which was the typical time frame



used in Oklahoma City. Because a .1% sales tax was used to finance debt service for Miller Park, and because a .5% sales tax to support parks, arts, and culture has been discussed previously by state and local policymakers, we also show the timeframes required if those specific taxing amounts were used.

It is important to note a few important caveats regarding this hypothetical model:

- 1) The selected arts, cultural, and parks projects consist only of those that were revealed by our needs assessment research in 2013. As a result, projects that may otherwise fit the Oklahoma City model for organizations that we did not assess – such as improvements to the Summerfest Grounds or State Fair Park – are not included. Similarly, projects outside of the scope of this study – such as libraries or school athletic facilities – are not included.
- 2) For each of the projects selected, the estimated cost is based on the best information available as provided by the relevant institution. Also, financing costs cited in our models apply only to construction, and do not include additional funds for future maintenance and repairs as occurred for the Oklahoma City MAPS initiatives. If this approach is pursued by local policymakers, then we would suggest they similarly consider mechanisms to put away funds for future capital needs.
- 3) Some listed projects already have secured substantial private funding, or have timetables that may preclude them from being included in this funding model. They are cited here, however, for illustrative purposes because of their consistency with the Oklahoma City approach.
- 4) For several of the projects selected, we make highly speculative and hypothetical assumptions regarding the ratio of public to private financing.

Finally, we would emphasize that **our rationale for constructing this model is *not* to suggest the specific projects that should be included if an Oklahoma City MAPS model is considered in Milwaukee County.** Rather, the purpose is to illustrate the possible efficacy and desirability of a temporary sales tax as a means of financing several high-profile capital improvement projects that may have the ability to collectively enhance the region’s arts, cultural, and entertainment infrastructure, as well as to generate greater operating budget stability for certain valued institutions. Those wishing to pursue this model undoubtedly would consider substituting different projects and different institutions.

Model 1A: Major capital projects approach for arts and cultural institutions

Table 9 shows a hypothetical list of arts and cultural capital improvement projects in Milwaukee County that might be included in a major capital projects approach. We attempted to identify projects that could be deemed regionally significant or that would hold potential to boost earned revenue and financial stability for their respective institutions. The table also shows an assumed public funding



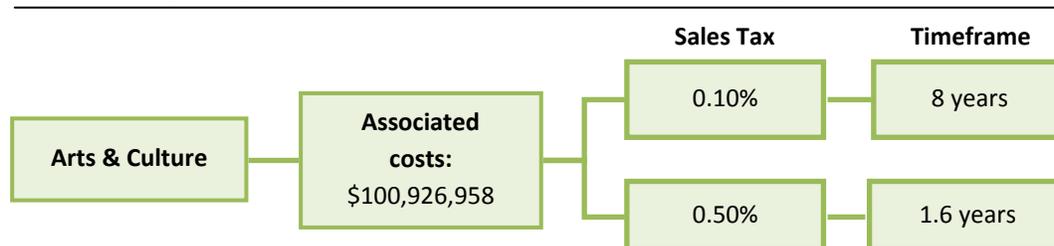
amount for each project that would need to be generated by the temporary sales tax. Overall, we cite 10 projects with a total estimated public funding need of \$100.9 million.³⁶

Table 9: Major capital projects approach for arts and cultural institutions

Organization	Model 1	Total projected
Arts & Culture		
Milwaukee County Zoo ³⁷	<ul style="list-style-type: none"> African Plains exhibit Sea Lion exhibit 	\$12,588,625 \$16,300,000
Marcus Center	<ul style="list-style-type: none"> Replace and expand parking structure 	\$25,000,000
Milwaukee Public Museum	<ul style="list-style-type: none"> New entrance, bus turnaround, 1st floor renovation Connecting Kids to Science exhibit 	\$10,000,000 \$2,500,000
War Memorial/Art Museum	<ul style="list-style-type: none"> New Lake (East) Atrium addition & plaza Enclose the Kahler Sculpture Court Fitch Plaza (connected w/above projects) 	\$4,083,000 \$991,000 \$1,131,000
Milwaukee Ballet	<ul style="list-style-type: none"> Harmony Initiative (Ballet's share) 	\$13,333,333
Milwaukee Youth Arts Center	<ul style="list-style-type: none"> MYAC expansion 	\$15,000,000
TOTAL CAPITAL EXPENDITURES		\$100,926,958

In **Figure 1**, we show the size of the sales tax needed to generate the required cash financing amount to pay for the list of projects over an eight-year period. In addition, we show the number of years required to generate the necessary funding if the sales tax were .5%. In other words, we estimate that a 0.1% sales tax in Milwaukee County would be required to generate \$100.9 million in eight years. Conversely, if policymakers and/or voters opted to set the sales tax at 0.5%, then only 1.6 years would be required.

Figure 1: Major Capital Approach – Model 1A (Arts and Culture)



³⁶ Additional details on each project cited can be found in our December 2013 report.

³⁷ Milwaukee County and the Zoological Society traditionally have split the cost of capital improvements included in mutually agreed-upon master plans for the Milwaukee County Zoo. While it is unlikely that Milwaukee County would pay the entire cost of the projects cited in Table 1, we include the full cost because it is likely that the county's overall funding contribution toward the next master plan will greatly exceed the combined amount that is cited.



Model 1B: Major capital projects approach for arts and cultural institutions and parks

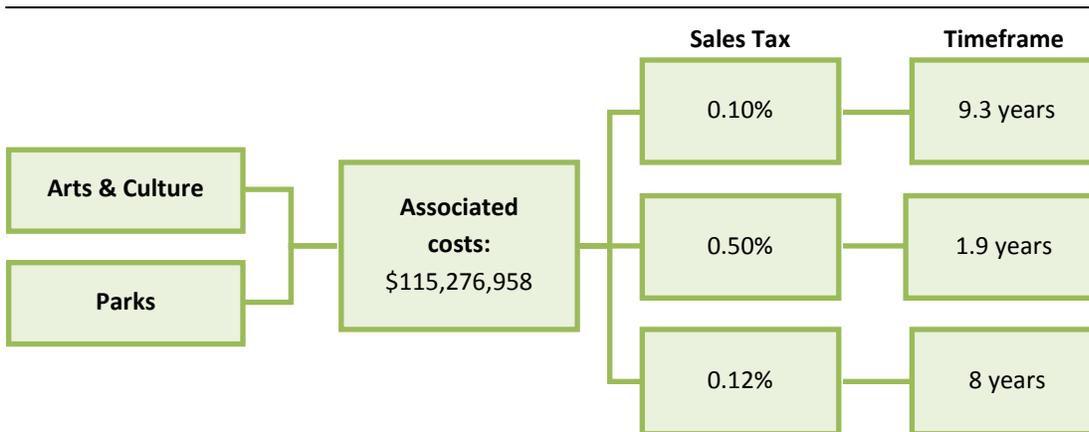
Our research into the capital needs of the Milwaukee County Parks identified only two near-term capital improvement projects that generally fit the Oklahoma City MAPS criteria of having regional significance and an ability to substantially boost earned revenue: a new regional water park on Milwaukee’s South Side and a project to create new baseball/softball complexes in three parks. That obviously does not mean that the Parks Department’s capital needs are limited to those two projects. On the contrary, in our December 2013 report, we identified more than \$80 million of capital funding needs in the parks over the next five years. Most of those projects would address basic infrastructure needs, however, which means that an Oklahoma City-type approach may not be well-suited to address them.

Table 10 shows the list of projects that would be funded under this scenario and corresponding funding needs. **Figure 2** then shows various sales tax options as calculated for the previous scenario.

Table 10: Major capital projects approach for arts and cultural institutions and parks

Organization	Model 1	Total projected
Arts & Culture	<ul style="list-style-type: none"> Projects listed in Table 1 	\$100,926,958
Milwaukee County Parks	<ul style="list-style-type: none"> South Side Aquatics Center Baseball/softball complex improvements 	\$10,000,000 \$4,350,000
TOTAL CAPITAL EXPENDITURES		\$115,276,958

Figure 2: Major Capital Approach – Model 1B (Arts, Culture, and Parks)



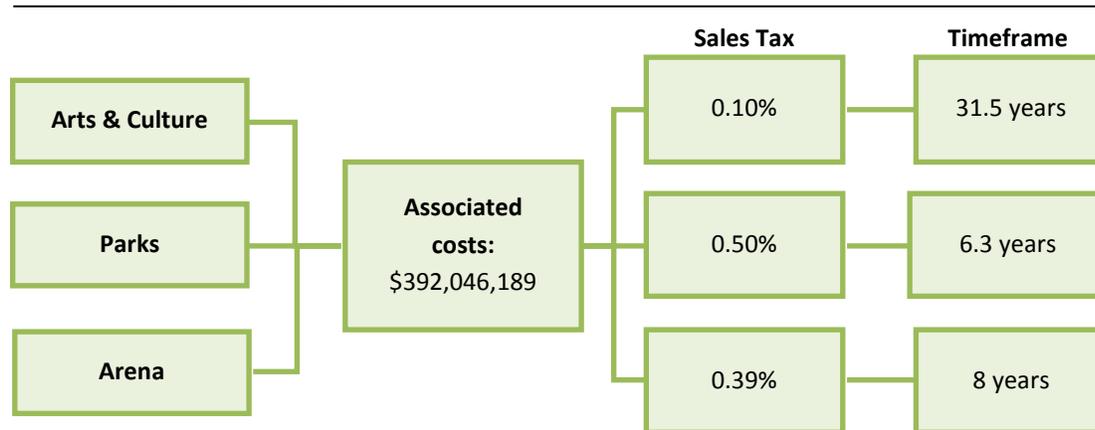
Model 1C: Major capital projects approach for arts/cultural institutions, parks, and new arena

In **Table 11** and **Figure 3**, we show the impact of adding a replacement for the BMO Harris Bradley Center to the mix of arts, cultural, and recreational projects shown in the previous scenario. It is important to emphasize the hypothetical nature of our assumption that \$277 million in public funding would be required for a new multi-purpose arena. We base it on an estimated cost of \$400 million for the new arena – which is based on an estimated figure that has been publicly mentioned by supporters – and an assumption that 69% of that cost would be publicly funded. The estimate of the percentage of public funding was derived from an analysis of the public funding percentages of the 13 NBA arenas that have opened in the past 15 years, which are shown in **Table 12** on the following page. The average public funding percentage for those arenas was 69%.³⁸

Table 11: Major capital projects approach for arts and cultural institutions, parks, and new arena

Organization	Model 1	Total projected
Arts & Culture	• Projects listed in Table 1	\$100,926,958
Milwaukee County Parks	• Projects listed in Table 3	\$14,350,000
BMO Harris Bradley Center	• New arena (69% public funding)	\$276,769,231
TOTAL CAPITAL EXPENDITURES		\$392,046,189

Figure 3: Major Capital Approach – Model 1C (Arts, Culture, Parks, Arena)



³⁸ Most of the information in this table was obtained from a paper written by Matthew J. Parlow, Associate Dean for Academic Affairs and Associate Professor of Law at Marquette University Law School. The source is Matthew J. Parlow, *Equitable Fiscal Regionalism*, 85 Temp. L. Rev. 49 (2012).



Table 12: New NBA arenas that have opened since 1999

Team	Stadium/ Arena	Year opened	Total cost (millions)	% Publicly financed
Denver Nuggets	Pepsi Center	1999	\$165	3%
Los Angeles Clippers/ Lakers	Staples Center	1999	\$375	19%
Dallas Mavericks	American Airlines Center	2001	\$420	30%
Indiana Pacers	Bankers Life Fieldhouse	1999	\$183	43%
Miami Heat	American Airlines Arena	1999	\$213	59%
Memphis Grizzlies	FedEx Forum	2004	\$250	83%
San Antonio Spurs	AT&T Center	2002	\$186	84%
Orlando Magic	Amway Center	2010	\$480	88%
Atlanta Hawks	Philips Arena	1999	\$214	91%
Charlotte Bobcats	Time Warner Cable Arena	2005	\$265	100%
Houston Rockets	Toyota Center	2003	\$235	100%
New Orleans Hornets	New Orleans Arena	1999	\$110	100%
Oklahoma City Thunder	Chesapeake Energy Arena	2002	\$89	100%

Source: Matthew J. Parlow, *Equitable Fiscal Regionalism*, 85 *Temp. L. Rev.* 49 (2012)

An alternative approach to building a new arena would be to renovate the existing BMO Harris Bradley Center in a manner that would modernize the facility and expand earned revenue opportunities. It has been estimated that a major renovation project could fall in the \$200 to \$225 million range, as compared to the estimated \$400 million cost of a new arena. For modeling purposes, we use cost and public funding estimates associated with a *new* arena to illustrate the high end of the cost range, but that is not intended to convey that the renovation option should not be considered.

Finally, while for illustrative purposes we show the use of a 0.1% sales tax to cash finance the projects cited in this sub-model, it likely would be unrealistic to use a tax of such limited nature given that the 31.5-year timeframe would exceed the likely useful life of the projects. The same would hold true for Model 1D below.

Model 1D: Major capital projects approach for arts/cultural institutions, parks, new arena, and expanded convention center

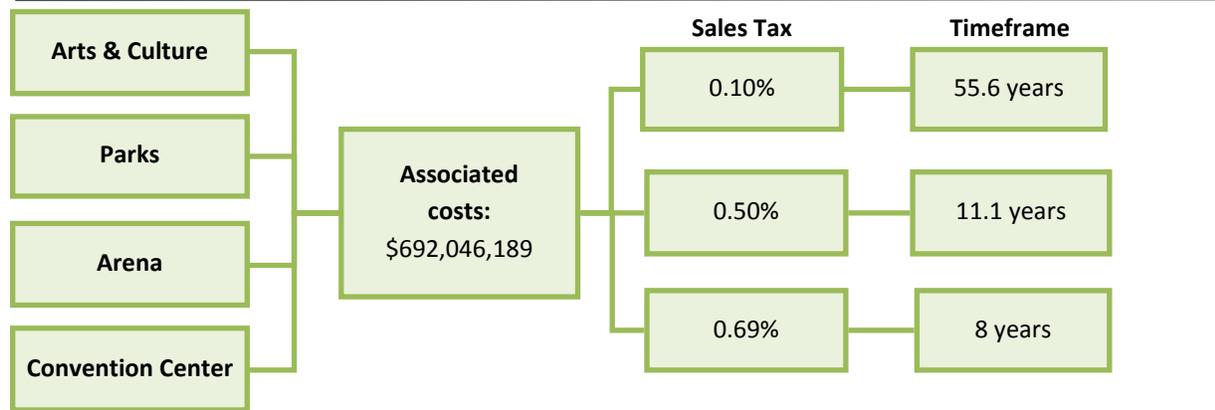
In **Table 13** and **Figure 4**, we add an expanded Wisconsin Center to the previous model and show both the estimated total dollar amount needed to fund the entire package of projects as well as our three sales tax scenarios. The \$300 million estimated cost of the Wisconsin Center expansion was provided by Wisconsin Center District officials; a more precise cost estimate should be available in the near future. In addition, it is important to note that for modeling purposes, we assume that the full cost would be financed by sales tax revenues. As we note in our December 2013 report, it is possible that some capacity would exist within the District's existing public revenue streams to finance part of a convention center expansion and reduce that cost.



Table 13: Major capital projects approach for arts and cultural institutions, parks, new arena, expanded convention center

Organization	Model 1	Total projected
Arts & Culture	• Projects listed in Table 1	\$100,926,958
Milwaukee County Parks	• Projects listed in Table 3	\$14,350,000
BMO Harris Bradley Center	• New arena (69% public funding)	\$276,769,231
Wisconsin Center	• Expansion	\$300,000,000
TOTAL CAPITAL EXPENDITURES		\$692,046,189

Figure 4: Major Capital Approach – Model 1D (Arts, Culture, Parks, Arena, Convention Center)



Observations

This modeling exercise demonstrates both the positive attributes and potential limitations of an Oklahoma City-type approach in Milwaukee County. On the positive side, the modeling shows that a substantial list of important arts, cultural, recreational, and entertainment projects could be financed within an eight-year timeframe with a sales tax amount that would be lower than that used in Oklahoma City.

Indeed, whereas the Oklahoma City MAPS initiatives relied upon a one-cent sales tax, Model 1D demonstrates that even with the inclusion of a new arena and expanded convention center, a similar model in Milwaukee County would require “only” a 0.69% tax. This suggests either that several additional projects could be added to accommodate a one-cent tax (such as school athletic facilities, libraries, etc.); that a one-cent tax could leave room for substantial additional monies to be allocated for future maintenance/repair needs and equipment upgrades for the facilities included in the package; or that the size of the tax pursued by policymakers in Milwaukee County would not have to reach that level.

Another positive attribute is the ability to use this model not only to complete a set of high-profile infrastructure projects, but also to shore up the operating budgets of the entities that own or use that infrastructure. Each project cited in this model has potential to enhance patronage and earned revenues

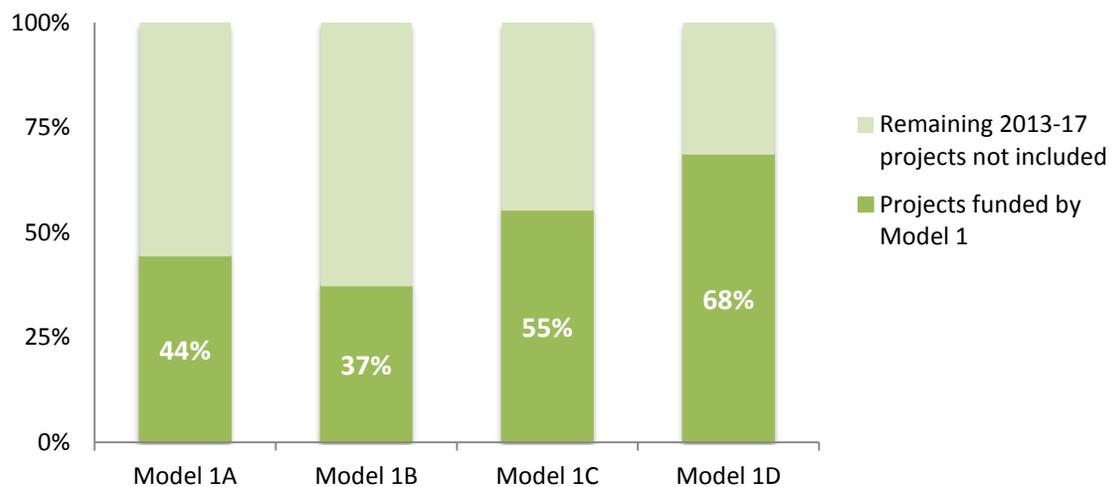


for its respective parent organization. In addition, the creation of a new public funding source to finance these major projects would create greater capacity within each organization to raise or secure other sources of funding to address basic maintenance and repair needs.

Finally, while this model addresses only a handful of major projects that represent a fraction of the broad range of needs identified in our earlier research, it could indirectly help to address those needs by freeing up additional county and philanthropic dollars. For example, because major projects at the Milwaukee County Zoo, Milwaukee Art Museum, and Milwaukee Youth Arts Center would be financed with the new public funding source, county and philanthropic dollars that otherwise might have been directed to those two projects could be available to support the needs of other institutions.

On the negative side, despite the potential for indirectly helping other institutions or projects, it is clear that the major capital projects approach is somewhat limited. **Chart 1** shows that although completing the list of Oklahoma City-type projects culled from our research could provide a major boost to the region’s arts, cultural, and entertainment landscape, those projects represent only about two-thirds of the capital needs identified from our needs assessments. Furthermore, even that set of overall capital needs does not include assets across the region that we did not investigate.

Chart 1: Model 1 funding as a percentage of overall 2013-17 projected capital needs



The practicality of using a pure Oklahoma City approach for several of the projects used in our modeling also may be in question. The model calls for the limited-term sales tax to be imposed prior to the initiation of construction for the MAPS projects, with construction only to begin when sufficient funding is generated to ensure that the projects can be completed without negative cash flow. Consequently, a similar approach in Milwaukee County would require the tax to be in place for several years before construction could begin. For certain time-sensitive projects – such as a new arena, the Marcus Center parking structure, and War Memorial/Art Museum improvements – taking such an approach may be problematic, though Milwaukee leaders also could modify the approach to address the specific needs of Milwaukee institutions (as Oklahoma City did in combining a bond issue with the sales tax for its MAPS for Kids initiative).



Overall, the major capital projects approach potentially could address an important set of arts, cultural, and entertainment infrastructure needs in Milwaukee County while assuring taxpayers that the funding source will be time-limited and that it will preclude the issuance of long-term debt. As a strategy for permanently addressing the broad range of capital, operating, and deferred maintenance needs experienced by the region's arts, cultural, recreational, and entertainment institutions, however, this approach is somewhat limited.

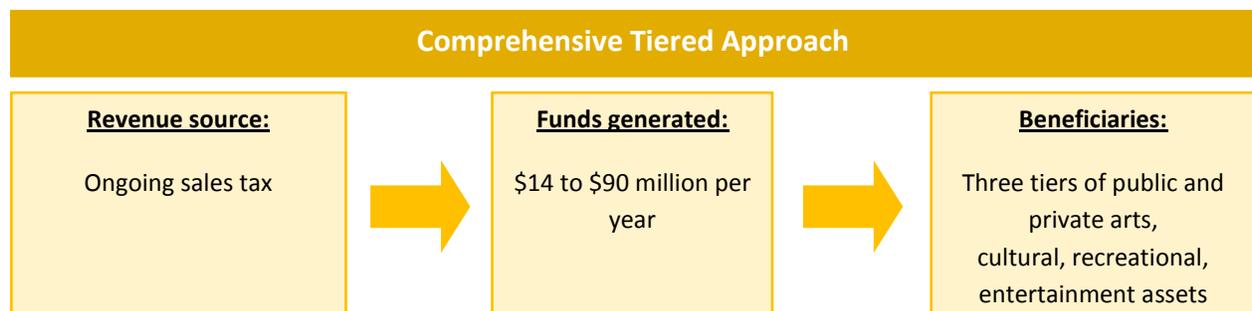


3.2 Hypothetical Model #2: Comprehensive Tiered Approach (Allegheny County/Denver)

This hypothetical model combines elements from the dedicated funding mechanisms used by Allegheny County and Denver to illustrate how a comprehensive source of funding (in this case a sales tax) might be used to support different tiers of arts, cultural, recreational, and entertainment assets in Milwaukee County. In our first sub-model, about two-thirds of the sales tax proceeds support the operations of major publicly-owned arts and cultural facilities, and lesser amounts are designated for major privately-owned assets and a competitive grants program for smaller organizations. Additional sub-models are created to show how this approach might work if it was expanded to support parks, sports/convention facilities, or solely to support capital and debt service needs.

The Allegheny County and Denver approaches – while distinct in several ways – share several key characteristics that are reflected in our comprehensive tiered model. Those include the following:

- An **ongoing sales tax** that guarantees specific amounts of dedicated funding on a “contractual” basis to support the operations of a core group of regionally significant assets. In our model, the contractual assets are those owned by Milwaukee County.
- An additional allocation of funding that provides support on a **formula basis to a second tier** of important regional arts and cultural assets. Funding amounts are not guaranteed and eligibility must be re-determined periodically. Our modeling does not seek to identify the specific privately-owned arts and cultural institutions that would be included in this tier, but generally assumes that they would be determined based on countywide significance using an analysis of annual attendance, income, and related factors.
- A third subset of sales tax proceeds that support **annual competitive grants** to additional arts and cultural organizations that meet certain eligibility criteria. Again, our modeling does not cite specific organizations or eligibility criteria.



The approaches of the two regions differ with regard to the size and geographic application of the sales tax; the number of tiers that are utilized; how sales tax proceeds are distributed among tiers; the types of assets that are deemed eligible; governance structure; and several other factors. For our hypothetical model, we reconcile those differences by selecting characteristics from each that are deemed most relevant to needs faced by cultural and entertainment assets in Greater Milwaukee.

For each of the four sub-models in this section, it was necessary to estimate the annual amount of sales tax revenue that would be required to address the needs of the relevant institutions. In making these estimates, we rely heavily on the needs assessment research from our December 2013 report and several key assumptions, including the following:

- 1) The amount of sales tax revenue needed to support the operations of Milwaukee County-owned arts and cultural institutions and parks was estimated based on the amount required to replace the 2013 budgeted property tax allocation plus an additional 15%. The 15% add-on comes close to meeting the \$5.6 million combined operating budget “gap” identified for the Milwaukee County parks and zoo in our first report if level funding was assumed for the remaining institutions. If this model were to actually be pursued, then there would need to be a more thorough assessment of operating budget challenges faced by these institutions and specific policy objectives to determine an appropriate annual funding amount.
- 2) The basis for each of the models is a three-tiered approach similar to that used in Denver. Consequently, sales tax proceeds are allocated to each tier based on the ratios used in that model (66% to Tier 1, 21% to Tier 2, and 13% to Tier 3). We envision Tier 1 consisting of publicly-owned assets, Tier 2 consisting of regionally significant privately-owned organizations and assets, and Tier 3 consisting of other privately-owned assets and organizations that would compete for annual grants. **It is important to note that the amounts allocated to Tiers 2 and 3 are based solely on the ratios from the Denver model; these ratios are purely hypothetical and do not reflect an assessment of the amounts needed to address the needs of the organizations included in those tiers.** Obviously, should such an approach be used in Milwaukee, policymakers would need to determine the funding ratio among the tiers based on a more comprehensive needs assessment, the number of actual organizations eligible for each tier, and specific policy goals.

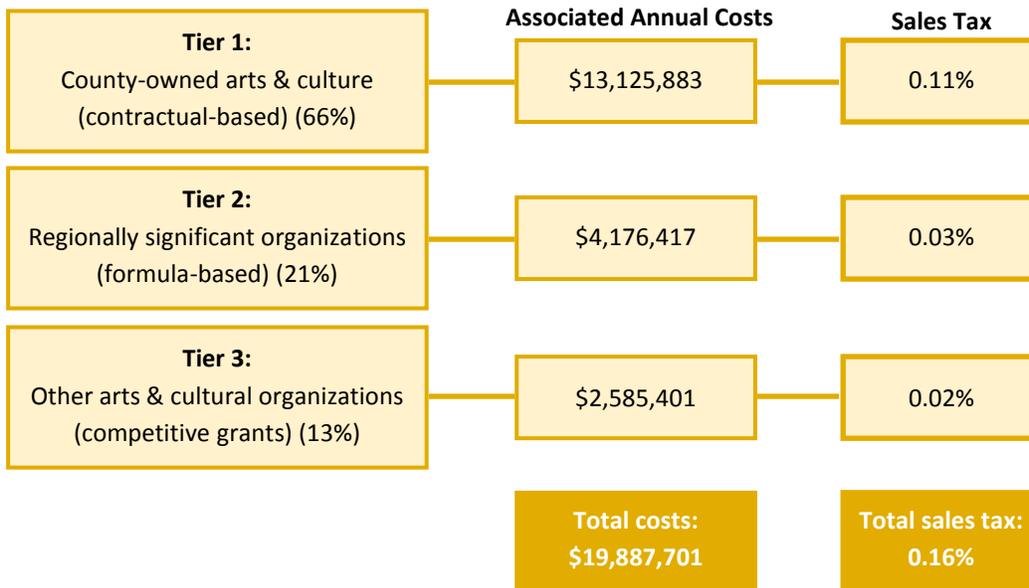
Other important caveats and assumptions are cited in the descriptions of each sub-model.

Model 2A: Comprehensive tiered approach for arts and cultural institutions

Figure 5 shows a hypothetical scenario for using dedicated sales tax revenues to support arts and cultural institutions in Milwaukee County per the Allegheny County/Denver models. Our modeling shows a need for about \$20 million annually to support three tiers of organizations, which would require a 0.16% sales tax in Milwaukee County.



Figure 5: Comprehensive Tiered Approach – Model 2A (Arts and Culture)



The starting point for our funding estimate is our determination that \$13.1 million would be needed to replace Milwaukee County property tax levy for seven institutions covered in our earlier research (Milwaukee Public Museum, Marcus Center for the Performing Arts, Milwaukee Art Museum, Milwaukee County War Memorial Center, Milwaukee County Historical Society, and the Charles Allis/Villa Terrace museums) and to both replace and enhance that support for the Milwaukee County Zoo. As noted above, that figure is based on 2013 budgeted Milwaukee County property tax levy contributions toward the operations of these institutions plus 15%.³⁹ The entities in this tier are the so-called “contractual assets,” and their individual funding amounts would be based on past precedent or existing memoranda of understanding.

Next, we apportion funding amounts to the remaining two tiers based on the ratios used in Denver. Consequently, about \$4.2 million would be made available for Tier 2 organizations, which would consist of regionally significant entities whose eligibility and funding would be determined based on their size, attendance, and related factors.

While it is impossible for us to project the number of organizations that might be included in Tier 2 and the funding allocations for each, the Denver example provides some context. In 2012, the Scientific and Cultural Facilities District (SCFD) provided \$9.3 million to 26 Tier 2 organizations in the seven-county Denver metro area. Tier 2 grants are distributed by formula and typically range from \$75,000 to \$1 million depending on the size of the institution.

³⁹ It is important to note that funding related to capital projects for these institutions (including debt service on previous capital projects) is not included in the new sales tax under this model. It is assumed that capital needs would be financed per past practice, i.e. a mix of county bond proceeds and private contributions.



A Milwaukee County Tier 2 logically would be considerably smaller given the inclusion of only one county and a population that is approximately 40% the size of the SCFD population. If we were to assume that 12 organizations were included in a Milwaukee County Tier 2, then the \$4.2 million would provide for about the same amount of funding on a “per organization” basis (\$350,000) as SCFD’s Tier 2.

As another point of comparison, Milwaukee’s UPAF distributed about \$7.5 million to its 15 “member” organizations in 2012-2013. Like UPAF allocations, the Tier 2 allocations would not serve as the primary source of operating funds for eligible institutions, but instead would be viewed as supplemental funding that would provide another source of steady income to augment earned revenues and private contributions for a regionally important set of arts and cultural organizations.

Finally, it is worth noting that the SCFD uses a minimum threshold of about \$1.5 million in “qualifying” annual operating income as a criterion for eligibility for Tier 2. If a similar criterion was used in Milwaukee, seven of the privately-owned organizations considered in our December 2013 report (Discovery World, First Stage Children’s Theater, Milwaukee Ballet, Milwaukee Repertory Theater, Milwaukee Symphony Orchestra, Milwaukee Youth Symphony Orchestra, and Skylight Music Theatre) initially would qualify for inclusion.

This model also would provide about \$2.6 million annually to Tier 3 organizations. Those funds would be distributed on a competitive basis in the form of small grants to a broad array of arts and cultural organizations and activities. In Denver, \$5.6 million was distributed to 270 Tier 3 organizations in 2011, with grants ranging from less than \$1,000 to \$140,000.

In Milwaukee County, these funds might be seen as a mechanism for enhancing or replacing the Milwaukee County Fund for the Arts and/or the Milwaukee Arts Board. The Fund for the Arts appropriated about \$320,000 in 2013 to the Cultural Artistic and Musical Programming Advisory Council (CAMPAC), which used the funds to distribute grant awards among 30 performing arts groups and to underwrite community cultural events catering to underserved populations. The Arts Board provided \$150,000 in grants to 32 arts and community organizations to support innovative projects or programs that celebrate the arts in city neighborhoods, parks, and public spaces. The much larger pool of Tier 3 funding in this model could raise the ceiling for annual grants and extend eligibility to infrastructure repairs, information technology upgrades, set designs, and other needs that currently fall beyond the reach of the two existing public arts funds.

Model 2B: Comprehensive tiered approach for arts and cultural institutions and parks

In this model, we add the Milwaukee County Parks Department to the list of county institutions that would receive dedicated sales tax funding to replace current property tax support for operations. We assume an allocation of an additional 15% above the department’s 2013 budgeted property tax allocation to help offset the operating budget gap identified in our December 2013 report. Those extra funds would provide the department with the wherewithal to boost staffing to 2008 levels and double the current operating budget allocation for minor maintenance and repairs. Policymakers would need to consider whether that amount is appropriate; in fact, many parks advocates likely would argue that a



larger add-on is needed to allow the department to address its substantial maintenance backlog and achieve staffing levels that more closely approximate those of the 1990s.

Figure 6 shows that approximately \$48 million would be required to fund this model, which equates to a Milwaukee County sales tax of 0.39%.

Figure 6: Comprehensive Tiered Approach – Model 2B (Arts, Culture, and Parks)

	Associated Annual Costs	Sales Tax
Tier 1: County-owned arts, culture, and parks (contractual-based)	\$41,260,665	0.33%
Tier 2: Regionally significant organizations (formula-based)	\$4,176,417	0.03%
Tier 3: Other arts & cultural organizations (competitive grants)	\$2,585,401	0.02%
	Total costs: \$48,022,483	Total sales tax: 0.39%

Model 2C: Comprehensive tiered approach for arts and cultural institutions, parks, new arena, and expanded convention center

Our next model borrows elements from Allegheny County to expand the dedicated sales tax to cover debt service for the public share of a new multi-purpose arena and an expanded Wisconsin Center. A new tier is created that would receive a guaranteed annual allocation of sales tax proceeds during the life of the debt. This allocation would fully pay annual debt service costs per a pre-established debt service schedule for the public share of a new arena and convention center expansion. Overall, this model would require about \$90 million annually, which would be generated with a sales tax of 0.72%.



Figure 7: Comprehensive Tiered Approach – Model 2C (Arts, Culture, Parks, and Debt Service for Arena & Convention Center)

	Associated Annual Costs	Sales Tax
Tier 1: County-owned arts, culture, and parks (contractual-based)	\$41,260,665	0.33%
Tier 2: Regionally significant organizations (formula-based)	\$4,176,417	0.03%
Tier 3: Other arts & cultural organizations (competitive grants)	\$2,585,401	0.02%
Tier 4: Debt service for arena and convention center	\$42,439,690	0.34%
	Total costs: \$90,462,173	Total sales tax: 0.72%

To estimate the amount of sales tax proceeds required for annual debt service, we made several assumptions regarding the cost and public funding share of a new arena and convention center expansion that mirror those used in our major capital projects model (i.e. 69% public funding for a \$400 million arena and full public funding for a \$300 million convention center expansion). We do not include in the financing of either project any additional funding for future repairs and maintenance.

We also developed a series of assumptions regarding the nature of project financing. For example, we assume that the debt would be issued over 20 years; that the interest rate would be 4% (based on consultation with public finance professionals); and that the debt service schedule would be constructed to reflect level debt service payments over the 20-year timeframe. Obviously, changes to those assumptions would produce different annual debt service requirements.

Finally, because this is the most comprehensive funding model in terms of ongoing support for arts, culture, recreation, *and* entertainment of all the models we consider, we thought it would be informative to show the sales tax that would be required if that tax was applied to the five-county Southeast Wisconsin Professional Baseball Park District region, as opposed only to Milwaukee County. **Figure 8** shows that under the five-county scenario, a 0.35% sales tax would be required, as compared to the 0.72% if the model was applied to Milwaukee County.



Figure 8: Comprehensive Tiered Approach – Model 2C Applied to Five-County Region (Arts, Culture, Parks, and Debt Service for Arena & Convention Center)

	Associated Annual Costs	Sales Tax
Tier 1: County-owned arts & culture, and parks (contractual-based)	\$41,260,666	0.16%
Tier 2: Regionally significant organizations (formula-based)	\$4,176,418	0.02%
Tier 3: Other arts & cultural organizations (competitive grants)	\$2,585,401	0.01%
Tier 4: Debt service for arena and convention center	\$42,439,690	0.16%
	Total costs: \$90,462,174	Total sales tax: 0.35%

Model 2D: Comprehensive tiered approach for arts, cultural, and parks capital needs

For our final sub-model in this section, we explore using a tiered sales tax approach exclusively for capital repairs, maintenance, and improvements. We start with the \$144.5 million capital needs “gap” identified in our 2013 report for the county-owned arts and cultural institutions and parks, which is broken down by institution in **Chart 2**. We then estimate the annual debt service cost that would be associated with a one-time county general obligation bond issue to fill 75% of that gap, thus assuming that 25% would be covered with private funding sources. Then, similar to our approach in previous sub-models, we use the Denver SCFD ratios to provide additional funding to help address capital needs faced by privately-owned arts and cultural organizations. Under this model, the initial annual sales tax requirement would be about \$14 million, which would equate to a sales tax of 0.11%.



Chart 2: Capital needs gap for county-owned arts, culture, and recreation

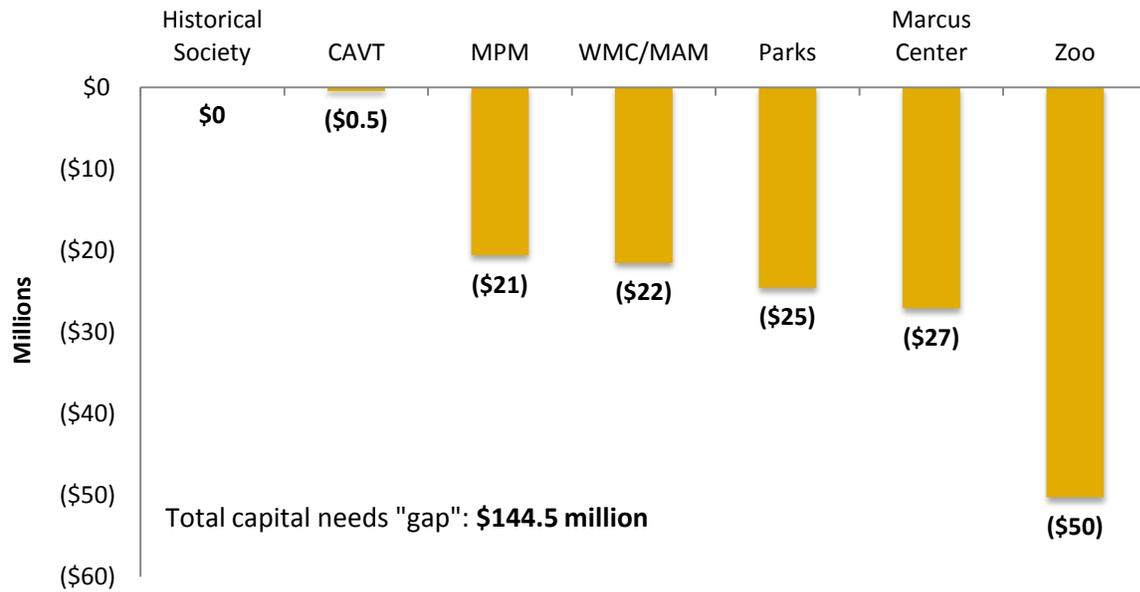


Figure 9: Comprehensive Tiered Approach – Model 2D (Arts, Culture, and Parks Capitals Needs)

	Associated Annual Costs	Sales Tax
Tier 1: County-owned arts, culture, and parks (contractual-based)	\$9,244,860	0.07%
Tier 2: Regionally significant organizations (formula-based)	\$2,941,546	0.02%
Tier 3: Other arts & cultural organizations (competitive grants)	\$1,820,957	0.01%
	Total costs: \$14,007,363	Total sales tax: 0.11%

As in the previous sub-models, we envision that Tier 2 organizations would have funding amounts determined per an allocation formula, though in this case the funding only could be used to support capital needs. A definition of such needs would need to be determined, but it would reasonably include both capital improvements and a broad range of infrastructure repair and maintenance needs. Similarly, for Tier 3, the competitive grants would be designed to provide assistance to organizations facing infrastructure, equipment, information technology, and similar one-time capitalized expenditure needs.



This sub-model is designed to illustrate an approach in which a supplemental source of dedicated funding would be used to address the pressing facility and capital improvement needs of cultural and parks assets. In developing this model, we made several hypothetical assumptions that likely would need to be refined if this approach actually was pursued. For example, this approach assumes that the policy goal is to address the current capital needs gap facing Milwaukee County, but not necessarily to provide a steady source of ongoing capital/debt service support that would address additional capital needs that materialize in future years. In addition, it is assumed that:

- Three-quarters of the capital needs “gap” facing the county-owned institutions and parks – a total of \$108.4 million – would be addressed with the one-time county general obligation bond issue, while the remaining amount would be financed with private resources.
- Bonds would be issued to address the entire \$108.4 million gap in the same year. This assumes that the county actually has the capacity to administer and complete the projects within the timeframe that is allowable under arbitrage guidelines associated with the bonds. If that is not the case, then issuing the bonds in multiple installments over a lengthier period would be necessary.
- Bonds would be issued over a 15-year timeframe, which reflects current county policy.
- The interest rate would be 3.25% and debt service payments would be level-funded over 15 years.

Observations

The comprehensive tiered approach is perhaps most helpful in demonstrating the level of ongoing public sales tax commitment that might be required if policymakers wish to use that form of revenue to replace the property tax as the primary source of public support for the Milwaukee County-owned arts and cultural assets.⁴⁰ We are also able to show how privately-owned arts, cultural, and entertainment assets might be included, though not under the pretense that public funding would be a primary source of support for those assets.

Previous deliberations in Milwaukee County regarding the need for a dedicated sales tax to support the operations of the county-owned cultural institutions and parks typically have cited a half-cent tax. Our modeling shows that only about four-tenths of a cent may be necessary, and further reveals that this amount also could provide about \$6.5 million annually to bolster the operations of non-county-owned entities. Of course, the amount required also will depend on the policy goals of decision-makers. In particular, if their assessment of the needs and condition of these institutions dictates a desire for vast improvement, then additional funding would be necessary, and a half-cent or more may be required.

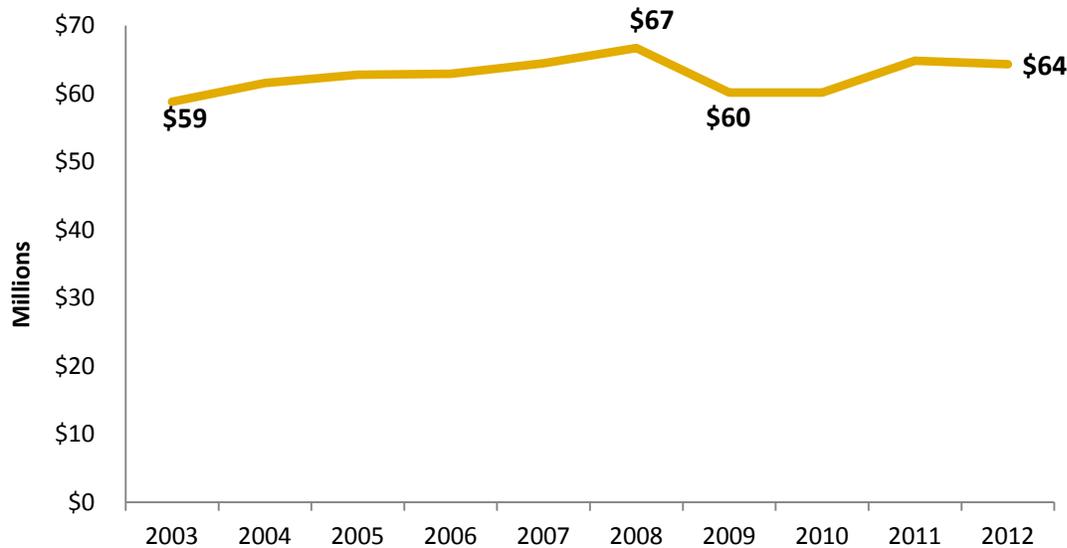
A primary advantage of using a dedicated sales tax to support the county’s cultural institutions and parks – as compared to non-dedicated property tax funding – is the likely promise of elasticity in

⁴⁰ It is important to note that state and county policymakers would need to determine whether a one-to-one reduction in property taxes to accompany the new sales tax funding mechanism is a desirable and required outcome and how that would be statutorily accomplished.



revenue collections that optimally would allow public funding to keep up with inflationary expenditure pressures. As shown in **Chart 3**, from 2003 to 2012, Milwaukee County collections from its existing half-cent sales tax grew from \$58.8 million to \$64.3 million (9%), despite the 2008-2010 economic recession. Consequently, had the county’s cultural institutions and parks been funded with a dedicated sales tax during that period, they collectively would have been receiving 9% more in dedicated funding in 2012 than they had received 10 years earlier.

Chart 3: Milwaukee County sales tax collections, 2003-2012



This potential for both long-term and annual inflationary growth contrasts with the recent history of property tax support for parks and cultural institutions, which is determined by the county executive and county board within the confines of each year’s overall budget. That support has diminished from \$36.9 million collectively in 2003 to \$34.3 million in 2012, a decrease of 7.2%.

Use of a sales tax also provides a greater opportunity to secure support for Milwaukee County’s cultural and recreational institutions from non-residents and tourists who purchase goods and services in the county. Generating support from non-residents could be justified by the fact that many of the institutions’ patrons live outside of the county (as discussed earlier in this report), and the fact that the regional economy as a whole benefits from their existence.

On the negative side, some might argue that the promise of dedicated public revenues to support the operations of parks and cultural entities would dampen the incentive of these entities to continuously seek operating efficiencies and creative ways to boost earned and private revenues. In addition, while sales tax revenues historically have grown over time, **Chart 3** shows how sharply they can diminish during periods of economic recession, which is the very time when earned revenues and private contributions also would suffer. Finally, as explained in the previous section, a sales tax may be deemed more regressive than the property tax, and its use – particularly for sub-models 2B and 2C – could cause “tax island” concerns, i.e. the prospect that consumers would make major purchases in adjacent counties to avoid the additional Milwaukee County tax.



Using the comprehensive tiered approach to support a new arena and expanded convention center – as shown in sub-model 2C – also produces some interesting observations. Our modeling shows that under a 20-year debt financing model, a sales tax of roughly three-quarters of a cent could provide sufficient funding to address the ongoing needs of the parks and cultural assets and service the debt on the two major projects. This by no means should be seen as an inconsequential tax, but it is smaller than the one-cent sales tax used in Oklahoma City for its various MAPS initiatives (albeit with a longer duration), and smaller than the one-cent sales tax approved by voters in a non-binding referendum in 2008 to support parks, culture, transit, and emergency medical services.

Sub-model 2C also demonstrates that a sales tax funding approach could be used to support both the ongoing operating needs of cultural and recreational facilities *and* the debt service costs associated with two major capital improvement projects. Our discussion in the previous section observed that the Oklahoma City model might be effective as a means of financing several important capital improvement projects within a limited timeframe, but that it would not address the broad and varied needs of the region's many cultural and entertainment assets. The tiered sales tax approach could provide a mechanism for addressing both sets of needs, though the trade-off would be a long-term financing approach that would need to remain in place for approximately 20 years.

Finally, our last sub-model shows how a dedicated sales tax could be used if the overriding policy goal was solely to address the immediate *capital* needs of cultural institutions and parks. Unlike our major capital projects model, which uses sales tax proceeds to finance a limited set of projects over an eight-year time frame, this approach would take a 15-year financing approach to address the county's full list of five-year capital needs. Specifically, by adding a little more than one-tenth of a cent to the county's existing half-cent sales tax, it would allow the county to finance an additional \$108 million of parks and cultural capital projects and immediately address its existing backlog. In addition, the extra sales tax revenue hypothetically could provide more than \$4.5 million annually to support the infrastructure needs of privately-owned arts and cultural assets.

A downside is that this approach would not necessarily address the *ongoing* capital needs of the county-owned institutions. While the additional sales tax ostensibly could be extended to support debt service on additional county bond issues after the initial 15 years, it would not address needs that arise between now and then. In addition, this approach does not address the potential need for a new arena or expanded convention center, though those items could be added if desired.

Overall, a comprehensive tiered approach would appear to represent a logical strategy for those who are seeking a means of providing enhanced public support for the broad array of arts, cultural, recreational, and entertainment assets in Milwaukee County, and of replacing property taxes that are paid primarily by county residents and businesses with a sales tax that also would generate revenues from non-resident employees, visitors, and tourists. Use of this approach, however, would require careful deliberation about the need and desirability of boosting public support for privately-owned entities, and of adopting a funding mechanism that would be long-term in nature.

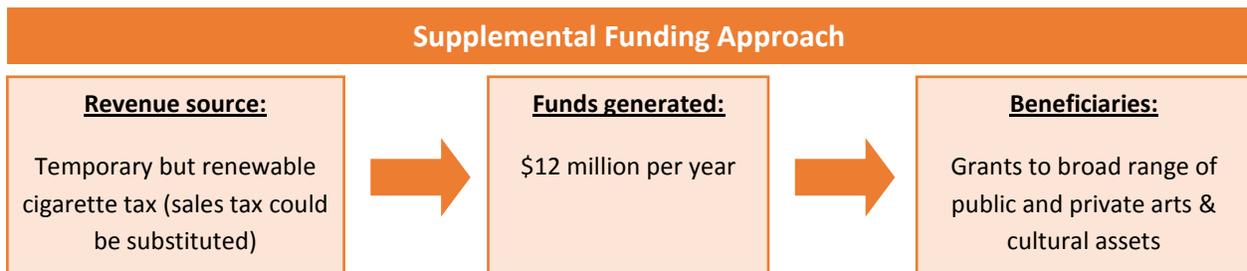


3.3 Hypothetical Model #3: Supplemental Funding Approach (Cuyahoga County)

The supplemental funding approach is used to illustrate a hypothetical model in which a temporary source of funding is created to address the pressing basic needs of arts and cultural institutions. A rationale to support this model might be that there are immediate, serious challenges facing several of the region’s cultural assets for which an infusion of additional public support is warranted, but that such support should be limited in nature and intended only to provide a short-term boost.

As described previously, the Cuyahoga County model on which this approach is based consists of the following key characteristics:

- A **10-year, 30-cents-per-pack cigarette tax** approved by voters to support arts and cultural organizations and activities.
- Revenues are distributed through a **competitive grants process** established by an arts and culture district, which is the recipient of the cigarette tax revenues. The largest grant category is for **general operating support**, though smaller tiers also exist to provide one-time support for special projects and events.
- Eligible organizations include private nonprofits whose primary mission involves **arts or cultural heritage**, as well as other nonprofits that provide public access to arts and cultural events and projects.



For our hypothetical models, we calculate the revenues that would be generated from a 30-cents-per-pack cigarette tax in Milwaukee County, and then envision how those proceeds might be distributed to arts and cultural assets here. Two sub-models are contemplated: one in which the proceeds are allocated only for operating needs and special projects/events for arts, cultural, and recreational institutions; and a second in which the proceeds are allocated solely to address capital needs of those institutions.

Because of the limited nature of this funding approach, our hypothetical modeling does not include scenarios in which a new multi-purpose arena or expanded convention center are included. We include the Milwaukee County Parks Department in both sub-models, though consistency with the Cuyahoga



County model might dictate inclusion only of those major parks amenities that are tied to arts or cultural heritage or that are regional in nature, such as the Mitchell Park Domes and Boerner Botanical Gardens.

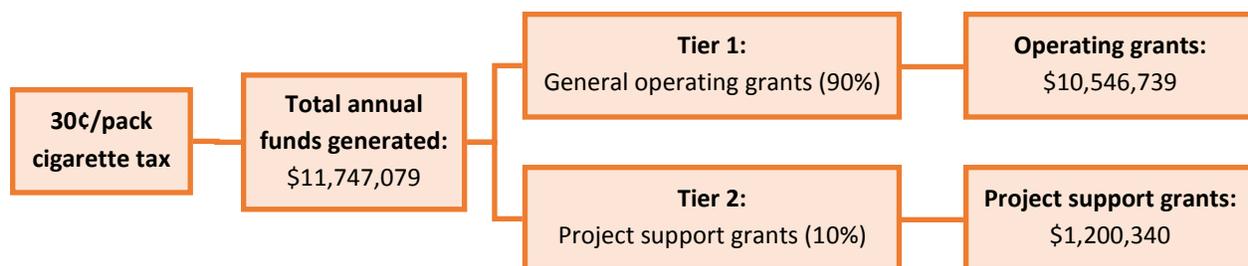
Also, while we use the cigarette tax example because of its use in Cuyahoga County, other revenue mechanisms could be substituted to accomplish the same basic goal of providing a time-limited infusion of additional public funds to address immediate arts and cultural needs. For example, a one-tenth-of-a-cent sales tax would generate approximately the same amount of revenue annually as the 30-cent-per-pack cigarette tax (\$12.4 million for the sales tax vs. \$11.7 million for the cigarette tax) and could be substituted for a cigarette tax. Other sin taxes – such as on beer, wine, and/or other alcohol – also could be substituted, though the limited revenue-generating capacity of those taxes would require substantial increases to generate the amount of annual revenue envisioned in this model.

Model 3A: Supplemental funding approach for arts, cultural, and parks operating needs and special projects/events

Our modeling begins with a calculation of the revenues that would be generated in Milwaukee County from a hypothetical 30-cent-per-pack cigarette tax. It is important to note that while the State of Wisconsin currently levies a \$2.52-cent-per-pack cigarette tax, local governments do not have statutory authority to levy cigarette taxes. Consequently, as with the sales tax models cited previously, state legislation would be required to effectuate this hypothetical model.

A 30-cent-per-pack cigarette tax in Milwaukee County would increase the current state cigarette tax by 11.9% and would generate approximately \$11.7 million annually. Using the roughly 90%/10% breakdown between general operating and project support grants employed in Cuyahoga County, our model would provide about \$10.5 million for operating grants and \$1.2 million for project support grants.

Figure 10: Supplemental Funding Approach – Model 3A (Arts, Culture, and Parks)



The extent to which an additional \$10.5 million in annual general operating grants would address the fiscal challenges facing Milwaukee County’s arts and cultural organizations would be influenced substantially by the number and types of institutions that would be eligible for such grants. In Cuyahoga County, \$13.7 million in general operating grants were awarded to 57 organizations in 2013, for an average of \$240,351 per organization. The eight organizations that received grants of more than \$500,000 are shown in **Table 14**. Those eight organizations received a combined total of \$8.7 million, or



64% of the overall \$13.7 million general operating pot. The remaining 49 organizations received an average of \$101,246 apiece.

Table 14: Largest general operating grant recipients in Cuyahoga County in 2013

Organization	2013-14 funding
Playhouse Square Foundation	\$1,730,876
Cleveland Museum of Art	\$1,467,045
Musical Arts Association (The Cleveland Orchestra)	\$1,452,817
The Rock and Roll Hall of Fame and Museum	\$1,001,023
Ideastream	\$987,909
Cleveland Institute of Art	\$735,372
Cleveland Institute of Music	\$716,270
Cleveland Museum of Natural History	\$647,658
Combined total	\$8,738,970

If this approach were employed in Milwaukee County, the largest recipients of funding might be those major assets that already are supported by public dollars: the Milwaukee County Zoo, Milwaukee Public Museum, Milwaukee County Parks, Marcus Center for the Performing Arts, Milwaukee County War Memorial Center, and Milwaukee Art Museum. For illustrative purposes, if we were to assume that those entities would receive 64% of the annual \$10.5 million operating grant funding pot (the same percentage received by the largest recipients in Cuyahoga County), then that would produce a combined allocation of about \$6.7 million.

Table 15 shows how the \$6.7 million hypothetically might be apportioned among the major county-owned institutions using the proportional shares of their existing county property tax support for operations as the hypothetical distribution formula. This approach would allow the zoo and parks department to come close to meeting their respective operating gaps identified in our December 2013 report, while also providing a sizable influx of support to the Milwaukee Public Museum to address its maintenance backlog. Smaller annual shares for the Marcus Center and War Memorial/Art Museum also could be helpful in bolstering annual maintenance budgets for the 10-year lifespan of the funding source.

Table 15: Potential general operating support grants for Milwaukee County institutions

Entities involved	2013 County operating support	% of total	Estimated annual allocation for Model 3A
Milwaukee Public Museum	\$3,502,376	10%	\$664,376
Marcus Center	\$1,088,000	3%	\$206,386
War Memorial/Art Museum	\$1,491,405	4%	\$282,909
Milwaukee County Zoo	\$4,918,755	14%	\$933,053
Milwaukee County Parks	\$24,465,028	69%	\$4,640,841
	\$35,465,564	100%	\$6,727,564



Under this approach, about \$3.8 million would remain for distribution to other eligible arts and cultural organizations. If the average operating support grant was the \$101,246 experienced in Cuyahoga County in 2013, then that would provide sufficient resources to award grants to 38 additional organizations on an annual basis.

The annual \$1.2 million in project support grants hypothetically would be available to support a variety of one-time arts and cultural projects and events throughout the county, similar to the smaller amount of support (\$150,000 annually) that is currently provided by the Milwaukee Arts Board for citywide projects and events. In Cuyahoga County, organizations receiving project support grants must provide a one-to-one match, and grant amounts may not exceed 50% of the total project budget. In 2013, about \$1.6 million in project support grants were provided to 118 Cuyahoga County organizations. **Table 16** shows the five largest grant recipients.

Table 16: Largest project support grants in Cuyahoga County in 2013

Organization	Project	2013-14 funding
Scenarios USA	• REAL DEAL Cleveland Film Project for youth film productions	\$48,356
Baldwin Wallace University	• Youth and adult summer music study at BW's Conservatory of Music	\$46,927
Downtown Cleveland Alliance	• Sparx City Hop 2013, an annual all-day event that provides free trolleys to explore Cleveland's neighborhoods and festivities	\$46,927
CityMusic Cleveland	• Concert production of "Uzu and Muzu from Kakaruzu"	\$46,856
University Circle Inc.	• WOW! Wade Oval Wednesdays, a free Wednesday concert series in the summer sponsored by cultural institutions of Cleveland's University Circle	\$46,713
Combined total		\$235,779

If Milwaukee County leaders wished to pursue this model, then a governance structure would need to be determined for the administration of the competitive grants process, including the establishment of eligibility criteria and a process for determining the amount of grant allocations. Options would range from creating a new arts and cultural district similar to that in Cuyahoga County, to housing the program in Milwaukee County government, to expanding and reconstituting an existing arts and cultural grant-making entity like CAMPAC or the Milwaukee Arts Board.

Model 3B: Supplemental funding approach for arts, cultural, and parks capital needs

In this sub-model, the entire \$11.7 million generated annually by a 30-cent-per-pack cigarette tax would be dedicated to addressing infrastructure repair and improvement needs. As with Model 3A, the dollars would be allocated via a competitive grants process in which arts and cultural institutions that meet certain criteria would be qualified to apply for grants to support facility needs. In this case, criteria also would need to be established to distinguish eligible capital infrastructure-related costs from maintenance costs that are funded in operating budgets, and to define the types of capital repairs and improvements that would be eligible. The grants program also would need to determine whether grant funds could be used for debt service as well as cash financing, whether multi-year grants would be allowed, and other similar parameters.



Given the somewhat limited amount of funds available each year under this model, this approach likely would not be conducive to funding major capital improvement projects. Such an approach might be effective, however, in helping help arts and cultural organizations address basic infrastructure repair and replacement needs, particularly given the difficulty that both publicly- and privately-owned facilities often experience in generating private sector donations to support those needs.

This approach also could be beneficial to Milwaukee County by allowing it to address several million dollars of capital projects annually that otherwise would be required to compete with other needs within the confines of the county’s self-imposed annual bonding caps. **Table 17** shows a hypothetical list of projects identified in our earlier report that might benefit from this sub-model.

Table 17: Projects that could potentially be considered in Model 3B

Project	2013-17 capital expenditure
Kosciuszko Community Center HVAC (Parks)	\$2,000,000
Sherman Park Boys & Girls Club HVAC (Parks)	\$2,000,000
Museum exterior window replacement (MPM)	\$1,779,038
Exterior facade restoration (MPM)	\$1,740,976
Todd Wehr elevator modernization (Marcus Center)	\$1,718,600
Aviary roof replacement (Zoo)	\$1,686,590
Building foundation repair (Milwaukee Rep)	\$1,500,000
Veterans courtyard (WMC/MAM)	\$1,185,000
Floor resurfacing - apes, primates, Aquatic & Reptile Center, restrooms (Zoo)	\$788,800

Observations

The supplemental funding approach is useful in illustrating how a short-term, relatively modest public funding source might be used to tackle the most pressing needs currently facing arts and cultural institutions in Milwaukee County. While this approach would not address the more comprehensive operating needs facing entities like the Milwaukee County parks and Milwaukee Public Museum, or major capital improvement projects like the Marcus Center’s parking structure or the zoo’s African Plains exhibit, it could distribute a temporary infusion of resources among a broad array of arts and cultural organizations to address immediate maintenance, infrastructure, or operational challenges.

Previous discussions among Milwaukee County policymakers and advocates have centered on the inadequacy of the county property tax as a means of supporting the county-owned cultural institutions and parks, and have instead suggested a sizable sales tax as a means both of replacing and enhancing that funding source. The supplemental funding approach is less ambitious, but might be seen as more politically viable in that it would limit the “ask” of county taxpayers and guarantee a limited duration. At the same time, it holds potential to generate more than \$120 million if adopted for a 10-year-period, which could address a substantial portion of existing arts and cultural operating and/or capital needs.



The attractiveness of this approach for those who believe some type of new or enhanced public funding source is necessary to address arts and cultural financial challenges may depend on one's perception of the nature and severity of those challenges. One train of thought might be that the operational and capital issues currently facing both county- and privately-owned institutions are linked primarily to the recent condition of the local economy and the fiscal woes facing Milwaukee County government, both of which have now improved. That would suggest those challenges might be addressed with short-term assistance, after which the institutions could and should be expected to manage within their existing financial frameworks. Conversely, those who deem the problems long-term and structural in nature might argue that a more comprehensive and permanent funding solution would be required.

There are also a host of policy and political considerations that would impact the consideration of this funding model. The political and economic efficacy of a cigarette tax, for example, would need to be considered given its applicability only to a limited segment of the population, the comparatively high cigarette tax already in place for Wisconsin residents, and the possible loss of revenues to merchants who sell tobacco products in Milwaukee County.

Another factor is the appeal to policymakers and the general public of an approach that would be focused exclusively on arts and cultural organizations, as opposed to entertainment assets and/or other needs. Is there sufficient concern about the health and survival of Milwaukee County's arts and cultural institutions to justify a new public funding source solely to support those entities, or would such a public funding source also have to address other needs to make it palatable to voters? Our research shows that the answer to that question has differed in different metro areas, and its answer in Milwaukee County is unknown.

Overall, a supplemental funding approach in Milwaukee County could provide an effective mechanism for addressing a substantial subset of the fundamental operating or capital challenges outlined in our December 2013 report. The relatively minor impact of a 12% increase in the existing cigarette tax or a one-tenth-of-a-cent sales tax (as compared to the more comprehensive funding mechanisms in other models) also might make this approach attractive to some.

On the negative side, however, this approach might serve only as a short-term band aid because it would fail to address the inherent weakness of a non-dedicated property tax as the primary means of supporting the county's cultural institutions and parks. In light of the political controversy that *any* effort to establish a new public funding source for arts and cultural institutions is likely to engender, some may argue that an approach that fails to provide a comprehensive, long-term solution is not worthy of pursuit.

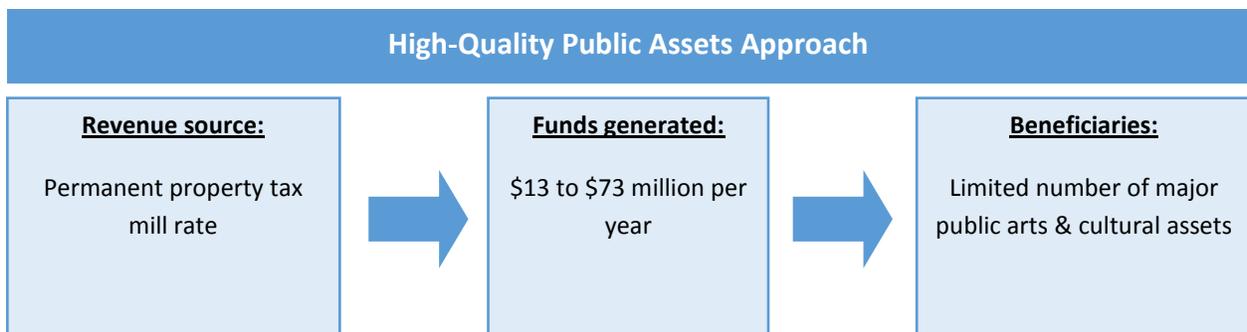


3.4 Hypothetical Model #4: High-Quality Public Assets Approach (St. Louis)

The high-quality public assets approach is used to illustrate a hypothetical model in which the property tax remains the primary source of public operating support for the Milwaukee County-owned arts and cultural institutions, but a **dedicated** mill rate is used to provide greater revenue elasticity, eliminate competition with other county functions, and provide the wherewithal for those institutions to continually invest in quality improvements. Sub-models are created to illustrate the impacts of adding the Parks Department and debt service costs. The exclusive focus of this approach is to maintain and enhance the quality of **publicly-owned** cultural and recreational assets.

As discussed previously, the St. Louis model on which this approach is based consists of the following key characteristics:

- Creation of a special tax district with authority to levy a **property tax up to a specified mill rate** to support publicly-owned cultural institutions. The mill rate can be modified only by voter referendum.
- The district includes a **limited number of publicly-owned institutions** and assigns each its own share of the mill rate. No annual application process is required to guarantee continued funding.
- Additional cultural **institutions can be added to the district only upon voter approval**. Any such addition needs to raise the overall mill rate, as opposed to redistributing resources among a larger group of institutions.



One of the notable elements of this hypothetical model is that it would not necessarily require state authorization, but could be implemented immediately by Milwaukee County policymakers if they were so inclined. In addition, this model shows how the act of *dedicating* a stream of revenue to a particular government function may be more important than the type of revenue source that is used (i.e. property tax, sales tax, or other). In fact, other sources of dedicated revenue – such as a dedicated sales tax – also could be used to support this model



The model also allows for deeper reflection on the issue of governance, as it is predicated on the creation of a special taxing district that segregates its member institutions from other local government functions. While this model hypothetically could be implemented within the existing framework of Milwaukee County government, consideration of the advantages and disadvantages of creating a special district like St. Louis' helps illuminate some of the governance-related policy considerations that should be contemplated if *any* new funding model is pursued.

Several important assumptions and estimates were used to construct three sub-models, including the following:

- Because a defining characteristic of the St. Louis model is its restriction to a small number of major publicly-funded arts and cultural institutions, we limit our initial modeling to five major Milwaukee County-owned assets: the Milwaukee Public Museum, Milwaukee County Zoo, Milwaukee County War Memorial Center, Milwaukee Art Museum, and Marcus Center for the Performing Arts. The Milwaukee County Parks Department is added to two additional sub-models.
- Similar to the tiered sales tax models, it was necessary to estimate the amount of annual operating support that would be required to support the Milwaukee County-owned arts and cultural institutions and parks in order to calculate the size of the corresponding property tax mill rate. As with that model, we determined the operating support target based on the funds required to replace the 2013 budgeted property tax allocation plus an additional 15%. The 15% add-on comes close to meeting the \$5.6 million combined operating budget “gap” identified for the Milwaukee County Parks and Zoo in our December 2013 report.
- In our third sub-model – which provides dedicated property tax funding to support both operations and *debt service* for the county-owned institutions – our assumption regarding the annual debt service funding requirement similarly starts with 2013 budgeted debt service spending as a baseline. In that case, however, we add 25% to account for the larger capital needs gap. Actual pursuit of any of these sub-models would require a more thorough assessment of operating and capital challenges and the development of specific policy objectives to determine appropriate annual funding amounts.
- For the purpose of calculating mill rates in this analysis, we use equalized property values, as opposed to assessed values (which are used in St. Louis). Because local assessors are responsible for determining the property values for their jurisdictions, total assessed value across municipalities and counties is not a uniform measure. To bring all values to a uniform level comparable across jurisdictions, the State of Wisconsin equalizes assessed values by using tools such as market sales analysis, random appraisals, and local assessors' reports. Equalized values, calculated yearly, are meant to reflect fair market value, and we believe that is the best basis of analysis for our modeling.

Finally, it is important to note that when we discuss the current property tax mill rate for Milwaukee County, we are referring to the mill rate that is derived from the property tax levy issued by Milwaukee



County *government*, as opposed to the total mill rate paid by Milwaukee County property owners. The overall property tax rate paid by property owners in Milwaukee County is a compilation of rates from the property tax levies of several governmental entities. Those include not only the county, but also the property owner’s municipal government, school district, the Milwaukee Area Technical College, and the Milwaukee Metropolitan Sewerage District.

Model 4A: High-quality public assets approach for arts and cultural institutions

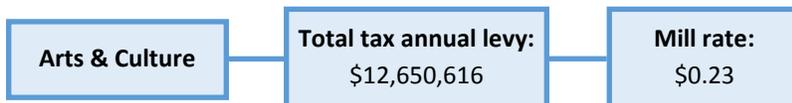
The concept of using a property tax mill rate to determine funding amounts for certain government functions may be unfamiliar to many in Wisconsin. While the state relies heavily on the property tax as a means of funding local governments and school districts, establishment of the mill rate typically flows from a determination by local elected or appointed officials of the amount of property tax revenue needed to administer services in a given year.

For example, in adopting their 2013 budget, Milwaukee County leaders decided on a property tax levy of \$279.3 million, which translated into a mill rate of \$5.03 per \$1,000 of equalized value. Similarly, they determined that \$35.5 million in property tax levy was needed to support the operations of the five major arts and cultural institutions and parks, which translated into a mill rate of \$0.64 per \$1,000 of equalized value.

In the case of the St. Louis County Zoo Museum District, the process works the opposite way. The district has established a mill rate of 27.97 cents per \$100 of assessed value (or \$2.80 per \$1,000) to support its member institutions, which means that the actual amount of property tax revenue collected in a given year is determined by property values, the total of which is multiplied by the mill rate to produce a property tax levy amount. If values rise, then support for the institutions increases (and vice-versa), barring an adjustment to the mill rate by the district or voters.

Figure 11 shows how this type of approach might work in Milwaukee County. If Milwaukee County officials (or the leaders of a new special district) wished to set the mill rate at a level that would generate an amount of property tax levy that is equivalent to the 2013 budgeted amount for the five major county-owned arts and cultural institutions plus an additional 15% (\$12.7 million), then that rate would equal \$0.23 per \$1,000 of equalized value. The amount of property tax generated to support those functions would increase or decline in subsequent years based on the annual increase or decline in property values.

Figure 11: High-Quality Public Assets Approach – Model 4A (Arts and Cultural Operations)

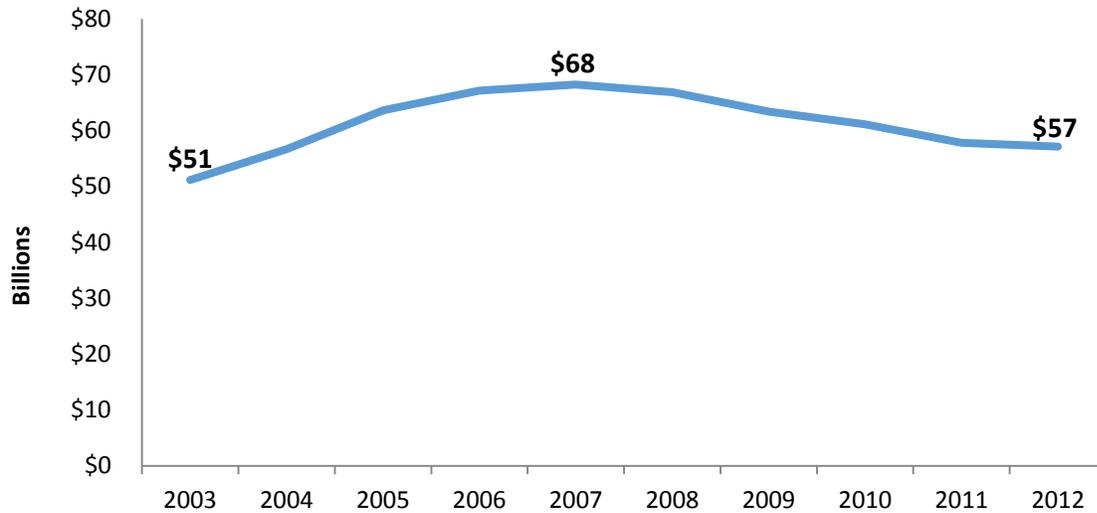


To provide perspective on how this approach might impact annual funding amounts for the arts and cultural institutions, **Chart 4** shows the annual growth in equalized property values in Milwaukee County during the 2003-2012 timeframe. This shows that even in a period that experienced an economic



recession of historic severity, property values at the end of the 10-year timeframe were about 12% higher than at the beginning (\$57 billion versus \$51 billion). While the period was marked by five years of steep increases followed by five years of declines, the average annual growth rate was 1.4%.

Chart 4: 10-year history of Milwaukee County’s equalized property values, 2003 through 2012



Next, in **Table 18**, we compare actual property tax allocations for four of the major county-owned assets at the beginning and end of the 2003-2012 timeframe with their hypothetical allocations at the end of the timeframe had they been assigned a mill rate of \$0.23 per \$1,000 of equalized value instead.⁴¹ While annual property tax levy allocations for each institution during the 10-year period would have been extremely volatile (i.e. they would have experienced the sharp increases followed by sharp declines shown in the chart above), this shows that each of the institutions would have fared considerably better under the St. Louis approach at the end of the 10-year period.

Table 18: Comparison of actual property tax allocations for county-owned assets from 2003 to 2012 with hypothetical allocations if model 4A had been in place

	2003 actual property tax	2012 actual property tax	2012 hypothetical property tax w/St. Louis model	Hypothetical additional funding
Milwaukee Public Museum	\$4,085,000	\$3,502,376	\$4,639,863	\$1,137,487
Marcus Center	\$1,600,000	\$1,088,000	\$1,817,327	\$729,327
War Memorial/Art Museum	\$1,575,515	\$1,491,405	\$1,789,516	\$298,111
	\$7,260,515	\$6,081,781	\$8,246,706	\$2,164,925

As noted above, effectuating this model would *not* require the establishment of a special district or other changes to state statutes. Milwaukee County elected officials currently possess the authority to

⁴¹ The Milwaukee County Zoo is not used for this comparison because as a county department, the size of its annual operating budget appropriation has been impacted by county accounting changes and other external factors that diminish the relevance of a budgetary comparison over the 10-year period.



establish a pre-determined mill rate within the confines of their statutorily-determined property tax levy limit to support the arts and cultural institutions.⁴² An important consideration, however, would be the impact that a guaranteed mill rate for the arts and cultural institutions (and/or parks) would have on the amount of property tax levy available for other functions of county government.

By establishing a specified mill rate for the cultural institutions and parks, policymakers would guarantee that those entities would receive an increase in property tax support that is equivalent to the percentage increase in property values, assuming that those values increase. Meanwhile, all other functions of county government would remain in competition for the remainder of the county's annual property tax allocation.

For example, if the arts and cultural institutions were guaranteed to receive a mill rate of \$0.23 per \$1,000 of equalized value, and property values in Milwaukee County increased 2% after the first year of implementation, then the property tax allocation to the arts and cultural institutions also would increase 2%, or about \$263,000. Conversely, all other functions of county government would need to compete for their property tax allocation from the remaining amount available as part of the annual budget process. Even if the county as a whole hypothetically was allowed to increase its property tax levy by 2% per the state-imposed levy limit and policymakers elected to do so, it would not necessarily follow that other functions would similarly receive a 2% increase. That is because certain non-departmental allocations (such as the county's debt service payment) may require increases that would limit the amount of property tax levy available to be shared with other departments, or the needs of certain departments may be prioritized over others.

In light of that paradigm, pursuit of a dedicated property tax approach might logically be accompanied by creation of a special taxing district. The special mill rate could be assessed by the district, while Milwaukee County's own property tax levy could continue to be determined by its annual budget process without the siphoning of resources "off the top" to the cultural institutions. If state policymakers wanted to ensure that the total property tax levy burden for county residents did not increase, then they could adjust the county's levy limit downward to offset the levying authority of the special district and the removal of the cultural assets from county government.

While creation of a special taxing district may appear appropriate in this context, there are a host of additional policy considerations that would need to be carefully deliberated and that may suggest otherwise, as discussed earlier in this report. Those include the desirability of establishing an additional governmental body; whether ownership of the institutions should be transferred to the special district;

⁴² The State of Wisconsin has established a property tax levy limit for municipal and county governments that is intended to restrict annual growth in property taxes. The limits typically are modified with each biennial state budget and are derived from a complicated formula. For the 2013-15 biennium, the limit is largely linked to the percentage growth in new real estate construction within each municipality and county. The potential impacts of a dedicated property tax mill rate for Milwaukee County arts and cultural institutions on the finances of Milwaukee County government and on the institutions themselves could be affected in varied ways by the state levy limits. Because of the complexity of this topic and the frequent changes that occur in the definition of levy limits, we do not conduct a comprehensive analysis of those impacts in this report, but we would suggest that this topic be comprehensively addressed should policymakers have interest in pursuing the St. Louis model.

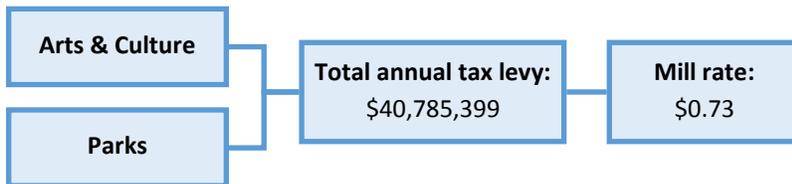


whether employees of the zoo and parks department should become employees of the special district; the potential impacts on county retirement costs; and whether the governance structure of the district would be more or less conducive to effectively managing the institutions than the current county-based structure.

Model 4B: High-quality public assets approach for arts and cultural institutions and parks

For this sub-model, we add the Milwaukee County Parks Department to the list of major county-owned institutions that would receive a dedicated property tax mill rate to support its operations. Again, we use the department’s 2013 budgeted property tax levy and add 15% to calculate our mill rate. Adding the parks would increase the amount of needed property tax levy by about \$28 million and require a total mill rate of \$0.73 per \$1,000 of assessed value, as shown in **Figure 12**.

Figure 12: High-Quality Public Assets Approach – Model 4B (Arts, Culture, and Parks Operations)



Because the St. Louis model emphasizes support for major regional institutions, a variation of this sub-model could add only those Parks Department facilities that meet that criterion. For example, the Mitchell Park Domes and Boerner Botanical Gardens could be peeled off from the department and either be included in a special district, or simply designated to receive their property tax levy support from the dedicated mill rate. In our December 2013 report, we found that the two entities collectively receive property tax support of about \$1.5 million per year. Adding only the Domes and Boerner Botanical Gardens to the other five major county-owned institutions would produce the need for a baseline tax levy amount of \$14 million and a mill rate of \$0.25 per \$1,000 of equalized value.

Model 4C: High-quality public assets approach for arts/cultural institutions and parks – operating and debt service

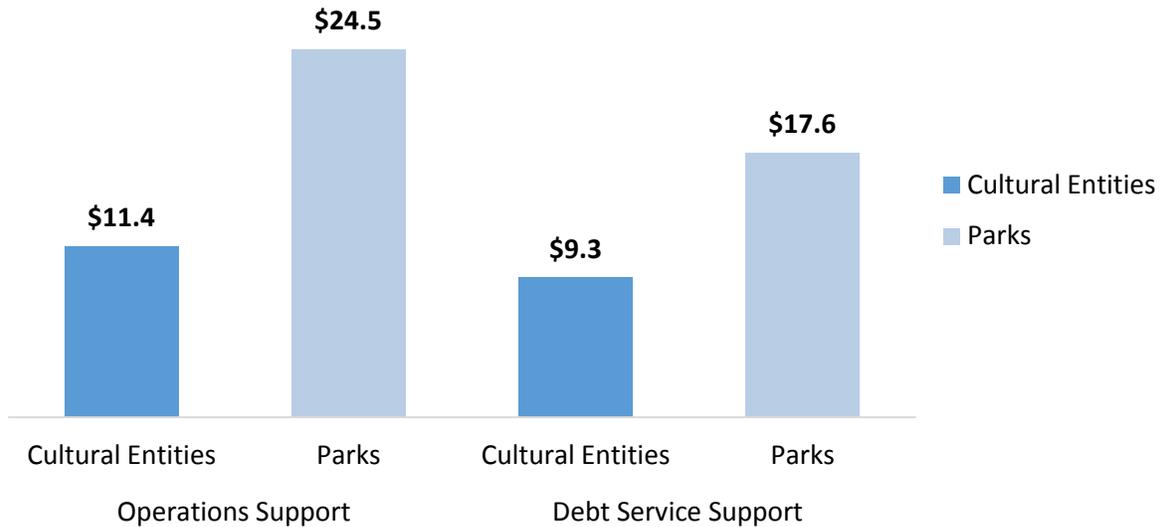
In our December 2013 report, we discussed the “under-the-radar” nature of Milwaukee County’s debt service payments for capital repairs and improvements in the arts and cultural institutions and parks. Because the county segregates its debt service in a non-departmental account – as opposed to allocating it to departments/institutions and showing it in those entities’ budgets – many policymakers and citizens are unaware of the magnitude of annual debt service payments for the county’s cultural and recreational assets and the extent to which those payments consume locally-generated revenues.⁴³

⁴³ Milwaukee County policy dictates that debt service is paid from the proceeds generated by the county’s 0.5% sales tax, as opposed to property tax. As we explained in our December 2013 report, however, those sources of



As shown in **Chart 5**, combined 2013 budgeted debt service for the cultural institutions and parks totaled \$26.9 million, or three-quarters of the \$35.9 million separately allocated to support the operations of those entities.

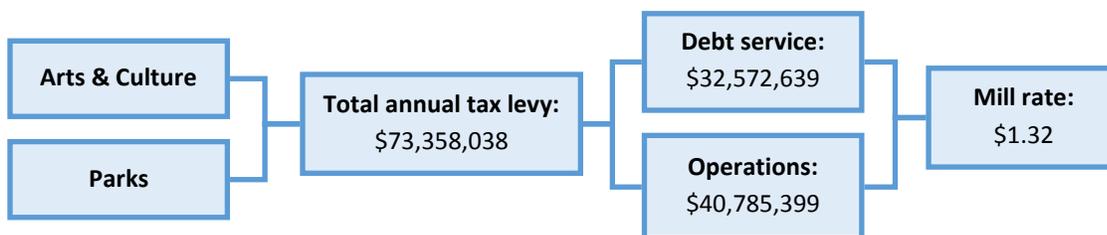
Chart 5: 2013 Budgeted Operations and Debt Service Expenditures for County-Owned Cultural Institutions and Parks



For this sub-model, we construct a hypothetical scenario in which the dedicated property tax mill rate is used to support both the operations *and* debt service needs of the major county-owned institutions. As described above, we derive our baseline debt service requirement from the 2013 budgeted amount plus an additional 25% that reflects the substantial capital needs “gap” identified in our previous report.

Figure 13 shows that the total property tax levy needed to accommodate both debt service and operating needs would be \$73.4 million, which would be generated with a mill rate of \$1.32 per \$1,000 of assessed value.

Figure 13: High-Quality Public Assets Approach – Model 4B (Arts, Culture, and Parks Operations and Debt Service)



locally-generated revenue essentially are co-mingled into a combined pool of local resources that are allocated at the discretion of the county executive and county board in the annual budget.



Using a dedicated property tax to support debt service costs could produce the same potential benefit in terms of revenue elasticity that was described for the previous sub-models, thus accommodating an expanded capital program (though a decline in property values could have the opposite effect). In addition, the cultural institutions and parks would not have to compete with the capital needs of other county functions and contend with the restrictions posed by the county's overall bonding cap.

The potential impacts on the county as a whole are less clear. If a special district was created and state legislators made no adjustment⁴⁴ to the county's property tax levy limits to account for the removal of parks and cultural debt service obligations, then the county would have substantial additional borrowing capacity to address other capital needs. Conversely, if a special district was not created and county policymakers elected simply to earmark a substantial portion of the existing mill rate for parks and cultural operations and debt service, then other functions of county government could suffer from the need to compete for fewer available resources in a similar manner to that described for Model 4A.

Observations

The high-quality public assets approach is useful in illustrating how a dedicated mill rate could enhance the potential for annual inflationary increases for major Milwaukee County-owned institutions and eliminate the need for those institutions to compete for resources with other county functions. While this approach would not address the needs of the region's broad array of privately-owned arts and cultural institutions or its entertainment and convention facilities, it could effectively address the unique challenges of major regional assets that have struggled for several years in the face of Milwaukee County's persistent financial challenges.

In addition, this model highlights the extent to which lack of a *dedicated* funding source, as opposed to use of the property tax, is a primary cause of the financial issues facing the county-owned institutions. During the past two decades, those supporting a new funding source to support Milwaukee County's parks and cultural institutions have pointed to the inadequacy of the property tax as a means of supporting those entities. What often has been lost in that discussion is that it is the *competition* the parks and cultural institutions have had to endure with other county functions for limited property tax resources that has been most problematic, as opposed necessarily to the nature of the tax itself. As discussed earlier in this report, the property tax and sales tax have advantages and disadvantages from a fiscal policy perspective, but either could provide enhanced support if a decision was made to *dedicate* resources from a specific mill rate or sales tax percentage to the parks and culture function.⁴⁵

As noted above, one of the primary potential advantages of using a dedicated property tax mill rate – at least at first glance – is that county policymakers ostensibly could pursue this strategy immediately without receiving authorization from the state. There also is familiarity among the general public with

⁴⁴ There are separate state-imposed property tax limits for operating and debt service levies. The county currently has considerable space under its debt service levy cap and a lesser amount of space under its operating levy cap.

⁴⁵ For comparative purposes, a sales tax of approximately 0.59% would be required to generate the annual \$73 million that would be needed to implement Model 4C.



the use of property tax revenues to support local government functions in general, and the county's major cultural and recreational assets in particular. That familiarity may enhance the appeal of this approach and was, in fact, an important factor in St. Louis' decision to employ it.

Yet, while statutorily possible, it is unlikely that county leaders would act to dedicate a specific percentage of their property tax mill rate to any specific function given the potential impact on all other functions and the restraints posed by the state-imposed property tax limits. Indeed, a resolution introduced by the chairperson of the county board's Parks, Energy, and Environment Committee in 2007 to simply guarantee *flat* property tax levy support of \$23 million per year to parks operations was not adopted, and opposition at the time centered on objections to bestowing favored treatment on any one function of county government.

Consequently, practical reality would dictate that if there is interest in pursuing this approach, then state authorizing legislation would be required either to modify existing property tax levy limits so that a specific percentage of the county's allowable property tax mill rate could be dedicated to the parks and culture function without negatively impacting other functions, or to create a special taxing district that could levy and administer the tax.

Finally, it is worth noting that leaders in the St. Louis region justified the dedication of a property tax mill rate to major institutions in part by ensuring the public that such action would guarantee free or reasonably-price admission to those institutions. Hypothetically, a similar approach could be pursued in Milwaukee County, though that would require a substantially higher mill rate than projected in our models to account for the substantial revenue that would be forsaken from admissions and ticket sales at several of the institutions and amenities.

Overall, the high-quality public assets approach would acknowledge Milwaukee County's special obligation to appropriately care for and maintain public access to its major cultural institutions and parks by isolating them from other county functions and providing a dedicated stream of property tax revenues to support them. On the negative side, while there is appeal in the use of a revenue mechanism that already is familiar to local taxpayers and relatively simple to administer, that appeal likely would be hampered by the county's relatively high property tax burden. In addition, this approach is limited in its application only to the major county-owned institutions, raising questions as to whether it would generate sufficient public support to secure its adoption.



CONCLUSION

Our examination of the ways in which other communities have grappled with the needs of their arts, cultural, recreational, and entertainment assets – coupled with our modeling of several distinctive approaches that could be used here – provides important context for Milwaukee County decision-makers. Based on this research, as well as our observation of previous funding debates regarding arts, cultural, and recreational amenities in Milwaukee County, we suggest that upcoming deliberations be framed by the following questions:

- 1) *Do we need to do anything at all?* We have identified a vast capital needs gap for the county-owned institutions, a set of less pressing but persistent maintenance and repair needs for privately-owned amenities, and severely challenged business models for the BMO Harris Bradley Center and Wisconsin Center. Yet, as we emphasized in our December 2013 report, the decision to act on those needs with new or enhanced public funding must be based on a variety of factors that are outside the scope of this study. Those include the value that taxpayers place on these assets both individually and collectively; their importance to the local economy; how their needs measure up to those faced by other community assets and programs; and whether other strategies that do not involve additional public resources might be viable. A similar set of questions emerges with regard to the three types of assets (publicly-owned, privately-owned, and sports/exposition) – if elected leaders wish to pursue a new or enhanced funding source, then should it include all three, or should one category (or sub-category) take precedence over others?
- 2) *If we do act, what is the primary driver?* Our case studies show four distinct types of drivers in other metro areas: a desire to spread the cost of supporting regional cultural and entertainment assets from city or county to a broader geographic area; a desire to vastly enhance the number and quality of cultural and entertainment assets as a means of bolstering economic competitiveness; a desire to preserve or enhance public access to high-quality cultural amenities; and a desire to rectify previous underinvestment in the existing array of arts and cultural amenities. Here in Milwaukee, a case could be made on behalf of each of the four as the primary driver. That creates a challenge for decision-makers, as different drivers may dictate different approaches to dedicated funding.
- 3) *Should broader public policy objectives come into play?* Is the cultural and entertainment funding debate solely about finding ways to address the immediate needs of valued regional assets, or should it be a loftier discussion about ways to permanently transform the method of financing and governing those assets? Since the 1990s, Milwaukee County leaders have questioned the efficacy of using local property taxes as the primary means to support the county-owned parks and cultural institutions. Meanwhile, others have suggested that the institutions be transferred to a special district, where they would be free from competition with other county functions for resources and attention. Consequently, some might suggest that the imperative to address the pressing needs of regional amenities also should be viewed as an imperative to consider longstanding questions of local government finance and structure.



While we cannot answer those questions, our research points to clear pathways for action depending on how they are answered by policymakers and the community at large:

- A **supplemental funding approach** could be pursued if the objective is narrowly geared toward addressing immediate basic operating and/or capital needs of arts and cultural institutions and parks, while leaving existing funding structures largely in place and deferring on the issue of a new arena or expanded convention center. Our modeling indicates that a 30-cent-per-pack cigarette tax or .1% (one-tenth-of-a-cent) sales tax could generate about \$120 million over 10 years to help bridge operating budget gaps at the zoo and parks department (or capital gaps at those and other county-owned facilities) and provide much-needed supplements for repairs, maintenance, and reserves at dozens of other publicly- and privately-owned arts and cultural organizations.
- A **high-quality public assets** approach could be pursued if the objective is to maintain or bolster quality and accessibility only for major *publicly-owned* assets by providing them with dedicated funding that would eliminate their need to compete for resources with other government functions. Our modeling shows that a dedicated property tax mill rate of \$1.32 per \$1,000 of equalized value could provide steady public funding (with enhanced prospects for elasticity) to support operations and debt service at the Milwaukee Public Museum, Milwaukee County Zoo, Milwaukee County War Memorial Center, Milwaukee Art Museum, Marcus Center for the Performing Arts, and Milwaukee County Parks Department. Similar to St. Louis, this dedicated funding could be linked to guarantees of reasonably-priced admissions. A dedicated sales tax also could be substituted to achieve the objectives of this approach.
- A **major capital projects** approach could be pursued if the objective is oriented toward financing major capital improvements that hold potential for boosting the region's image, enhancing tourism, and attracting and retaining talent. Our modeling suggests that a \$692 million package potentially could provide for a new arena, expanded convention center, and major projects for the zoo, ballet, public museum, and performing arts center, among others. The hypothetical package would require about a .7% (seven-tenths-of-a-cent) sales tax for eight years if levied only in Milwaukee County, and a smaller tax if levied regionally.
- A **comprehensive tiered approach** could be pursued if the objective is to reform local government finance and structure by permanently replacing a portion of the county property tax levy with a dedicated county or regional sales tax for the publicly-owned parks and cultural institutions, while also providing a means to support a new arena, expanded convention center, and annual grants for the broad array of other arts and cultural entities. Our modeling shows that such an approach would require a permanent sales tax of about .75% (three-quarters-of-a-cent) in Milwaukee County and .35% if applied to the five-county Southeast Wisconsin Professional Baseball Park District region. This approach not only would represent a possible first step in achieving greater balance between sales taxes and property taxes in funding local government functions, but it also could produce desired changes to local governance structure if coupled with creation of a special district or regional authority to administer the tax and assume ownership of the county-owned assets.



Obviously, there are several variations of these strategic directions and several possibilities for merging them, and there is also the option of simply maintaining the status quo. Framing the discussion around these key questions and approaches, however, would allow policymakers, civic leaders, and interested citizens to clarify objectives and determine a possible path forward to achieve them.



APPENDIX I

Summary of Pulling Back the Curtain: Assessing the Needs of Major Arts, Cultural, Recreational, and Entertainment Assets in Milwaukee County

Introduction

The Public Policy Forum's first report on arts, cultural, recreational, and entertainment assets in Milwaukee County – released in December 2013 – focused on the finances and physical needs of the institutions, including an assessment of their need for public financial support. While a primary focus was the cultural and recreational facilities owned by Milwaukee County government, the report also assessed the fiscal condition of six major privately-owned arts and cultural amenities and briefly reviewed the finances of the county's three largest sports and convention facilities.

The following summarizes the key findings contained in that report:

- **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 identified projected cultural and recreational capital needs totaling \$246 million. We noted that in light of the vast infrastructure needs facing non-cultural county facilities and its ongoing efforts to control its debt, it is highly questionable whether Milwaukee County 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 minimize the need for *additional* county funds to support the operations of those entities. The parks and zoo have greater operating needs – we found 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. 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 to help pay for preventive maintenance and minor facility needs.** This finding suggests that a short-term and time-limited source of support for privately-owned arts and cultural organizations might be most appropriate for those wishing to address the needs of those organizations, 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 have identified the need for ambitious new capital improvement projects. Those projects not only may compete against one another, but also may need to compete with private fundraising to support major capital initiatives at the county-owned public museum, zoo, and war memorial center/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 new options to supplement earned revenue and faces the prospect of losing its largest tenant (the Milwaukee Bucks) after 2017. The report took no position on whether a major renovation or new arena should be pursued, but it did indicate that should the Bucks leave, the center itself would face an uncertain financial future.

In this Appendix, we briefly review our initial needs assessment of the three sets of institutions covered in our first report: Milwaukee County-owned, privately-owned, and sports and convention. This needs assessment – including the identified major capital improvement projects summarized on the following page – forms the basis for our modeling of possible arts, cultural, and entertainment funding mechanisms for Greater Milwaukee in a later section of this report.



Summary of potential major capital improvement projects, 2013-2017

Milwaukee County-owned arts, cultural, and recreational entities

Milwaukee Public Museum

- New entrance, bus turnaround, & 1st floor reno (\$10.0 million)
- New Connecting Kids to Science exhibit (\$2.5 million)
- New formation of Civilization exhibit (\$1.5 million)

War Memorial/Milwaukee Art Museum

- Re-install art collections (\$5.3 million)
- New Lake (East) Atrium (\$4.1 million)
- Veterans Courtyard (\$1.2 million)
- Enclose the Kahler Sculpture Court (\$1.0 million)

Milwaukee County Parks

- New South Side Aquatics Center (\$10.0 million)
- New softball & baseball complexes (\$4.4 million)
- South Shore marina reconstruct (\$4.4 million)

Marcus Center for the Performing Arts

- Expanded parking structure (\$25.0 million)
- Vogel Hall renovation (\$2.0 million)

Milwaukee County Zoo

- New Sea Lion exhibit (\$16.3 million)
- New African Plains exhibit (\$12.6 million)
- New Underwater Hippo exhibit (\$9.6 million)
- Auxiliary parking lot (\$9.0 million)

Privately-owned arts and cultural entities

Discovery World

- Refreshing existing exhibits (\$3 million)
- Water-focused laboratory space (\$400,000)

Milwaukee Repertory Theater

- Building Foundation Repair (\$1.5 million)

Milwaukee Ballet

- Harmony Initiative (\$40 million)

Milwaukee Youth Arts Center

- Expansion (\$15 million)

Major sports and convention facilities

BMO Harris Bradley Center

- New arena (\$400 million)

Wisconsin Center

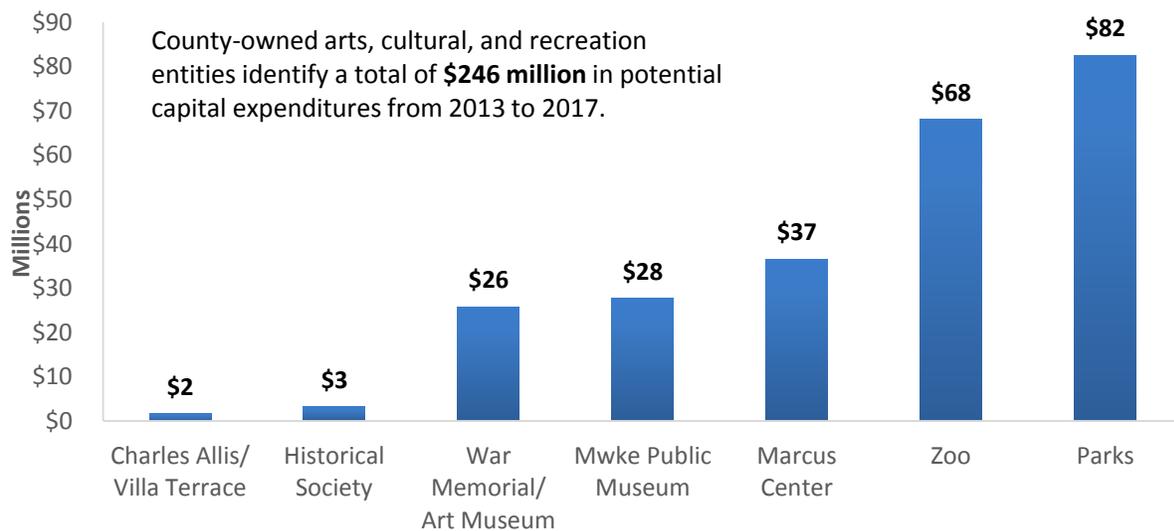
- Expansion (\$300 million)



Milwaukee County-Owned Arts and Cultural Facilities and Parks

Our analysis of the financial and physical challenges facing the county’s cultural and recreational assets found that fundamental needs were not being met, particularly on the capital side. Each of the county-owned entities cited substantial basic repair and maintenance needs, while several also cited the need for major capital repairs and improvements that were seen as critical to their ability to enhance earned revenue. Collectively, as shown in **Chart 6**, the county-owned institutions identified \$246 million of capital improvement needs in the 2013-2017 timeframe, which was \$143 million more than the amount spent in the previous five years.

Chart 6: 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 showed that it was most acute in the two entities that exist as county departments: the parks and zoo. The remaining institutions – while certainly not able to withstand significant cuts in *existing* county operating support – appeared to be in far better operating shape, particularly following the adoption of new long-term funding agreements for the Milwaukee Public Museum and Milwaukee War Memorial Center/Milwaukee Art Museum.

The following briefly summarizes our key observations for each of the county-owned institutions and the parks:

- **Milwaukee Public Museum:** The museum has faced substantial operating challenges in recent years. Those challenges have been alleviated by a new financial agreement with Milwaukee County and changes to the museum’s business model, but long-term operating stability remains a concern. On the capital side, the museum cites \$27.7 million in needed capital expenditures from 2013 through 2017, as compared to its \$7.1 million in capital expenditures during the previous five years. The county has committed to \$4 million in capital spending over the next four years, which leaves a sizable gap that likely will need to be filled with private funds or deferred.



- Marcus Center for the Performing Arts:** The Marcus Center’s operating budget is in solid shape, as it has been able to enhance earned revenues and reduce administrative costs to offset reductions in county support. The center’s capital needs are more pressing, largely because of the need to substantially repair or replace its aging parking structure. A proposed \$25 million plan to rebuild the structure with added capacity and retail space is being discussed with the county, city, and possible lenders, but its fate is uncertain. Overall, the center has identified \$37.6 million of capital needs for the 2013 to 2017 timeframe (including the new parking structure), as compared to \$9.5 million in capital expenditures during the previous five years.
- Milwaukee County War Memorial Center/Milwaukee Art Museum:** The Milwaukee War Memorial Center is heavily reliant on operating support from Milwaukee County and it has shown limited ability to enhance other revenue streams. A new funding commitment from the county will provide short-term stability, but identifying other avenues for revenue growth also appears imperative. On the capital side, both the center and the Milwaukee Art Museum have suffered from significant deterioration of the facility’s basic infrastructure, but a new \$25 million capital plan negotiated by the county and the two parties should address those basic needs and allow for important capital improvements. Overall, \$25.7 million of capital needs have been identified for 2013 through 2017, which is \$21.5 million more than the amount spent over the previous five years. The county’s effort to meet its share (\$10 million) may impact its ability to address capital needs of other cultural and recreational facilities.
- Milwaukee County Historical Society:** A lack of financial data from the Society precluded us from performing detailed analysis, but the organization’s \$132,000 operating deficit in 2012 suggests that it faces substantial operating budget challenges. The Society also has a significant capital challenge, as its downtown Milwaukee headquarters requires about \$2.8 million of exterior building work. Overall, \$3.3 million of capital needs have been identified for the 2013 to 2017 timeframe, which is \$2 million less than the amount spent over the previous five years. In 2009, the Society completed a major renovation to the interior of its downtown headquarters that was funded with a mix of private and county dollars.
- Charles Allis and Villa Terrace Museums:** The CAVT museums have successfully accommodated a reduction in Milwaukee County operating support with increased facility rentals, but that support still comprises almost a third of total revenues. Capital needs are pressing given the age of the two museum buildings and several identified needs with regard to the buildings’ exteriors. Overall, \$1.6 million of capital needs have been identified for 2013 through 2017, which is \$300,000 more than the amount spent over the previous five years.
- Milwaukee County Zoo:** The zoo’s inability to meet ambitious annual attendance goals has created operating budget shortfalls in recent years, which have impacted its ability to address minor repair and maintenance needs. Zoo officials suggest that doubling the size of the repair and maintenance budget to about \$1 million annually would be desirable, while a 2010 report by an outside consultant suggested that the zoo would benefit from annual property tax support of \$6.5 million,

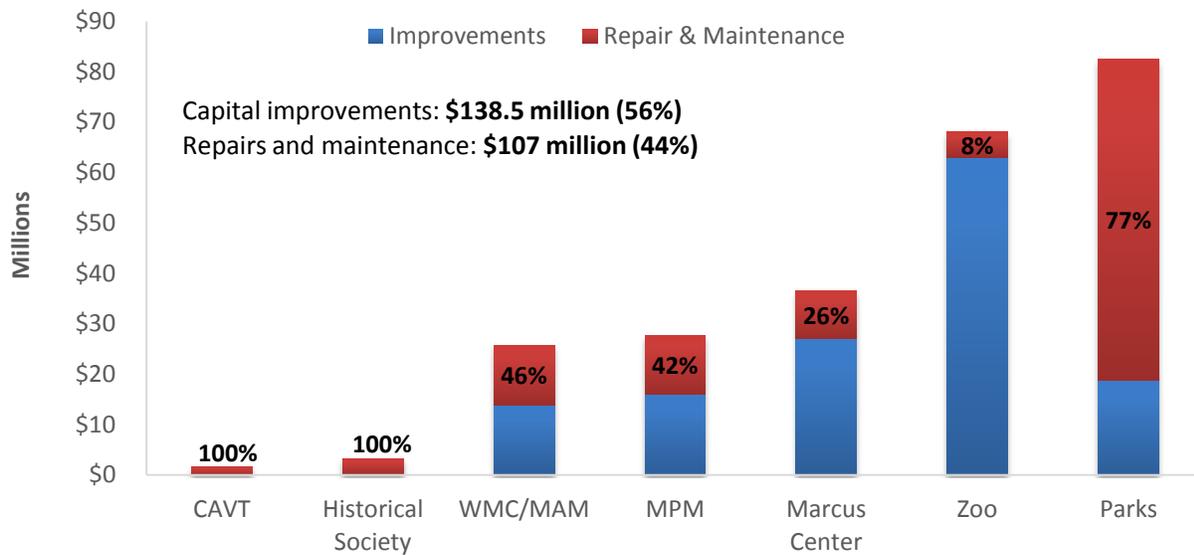


which is about \$1.6 million more than budgeted in 2013. On the capital side, the zoo is engaged in a master planning process that is likely to identify more than \$80 million in desired capital improvement projects, the cost of which has historically been shared between the county and Zoological Society. The zoo also has identified \$5 million of county-funded capital repair and renovation projects for the next five years outside of the context of the master plan.

- Milwaukee County Parks:** Operating budget challenges caused Parks Department staffing to sharply decline during the past five years, which has contributed to a large backlog of basic repair and maintenance needs. Returning staffing to 2008 levels and increasing contracted repairs and maintenance to optimal levels would require an additional \$4 million in local resources annually. The department’s capital needs may exceed its operating challenges, as we identified \$82.5 million in capital improvement needs during the next five years, which is \$24.6 million more than the total spent in the previous five years. The vast majority of those needs fall into the category of infrastructure repair and replacement, as opposed to new or improved amenities.

Our analysis also revealed an important distinction between the *types* of capital needs that are most urgent for different county-owned institutions. As shown in **Chart 7**, \$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.

Chart 7: Breakdown of capital improvement vs. capital repair needs for county-owned entities



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.

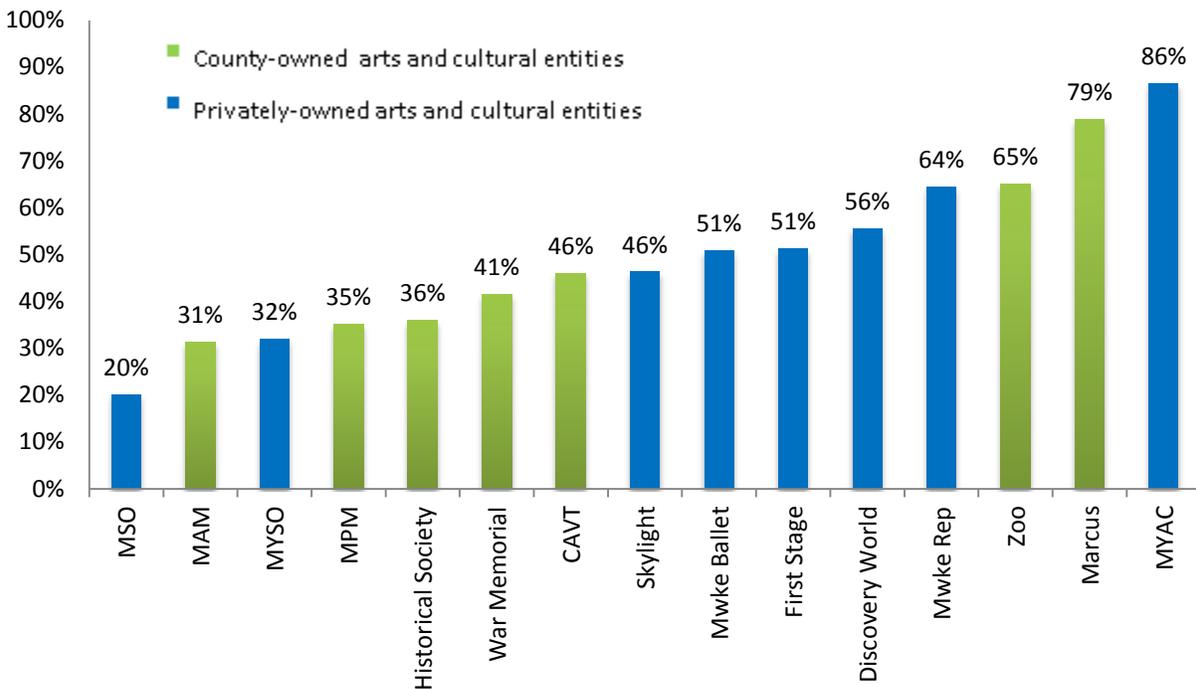
In Milwaukee, the need for public funding to support the overall arts and culture landscape is complicated by the existence of a robust United Performing Arts Fund (UPAF), which raises more than \$10 million in philanthropic funds annually to support 36 performing arts organizations in the region. While 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 foundation community – could challenge the notion that public sector support is required 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 found that the arts and cultural institutions that operate in privately-owned facilities tend to be more reliant on earned revenue than those operating in county-owned facilities (as shown in **Chart 8**), which is logical given their lack of public operating support. This reliance can be problematic when local economic conditions are weak, as ticket sales, food/beverage purchases, gift store sales, etc. can suffer during those times. Because the other main source of revenue for the privately-owned entities is private donations – which also tend to suffer when the economy is weak – these organizations experience considerable revenue volatility that is tied to the health of the local economy.



Chart 8: Reliance on earned revenue, five-year average

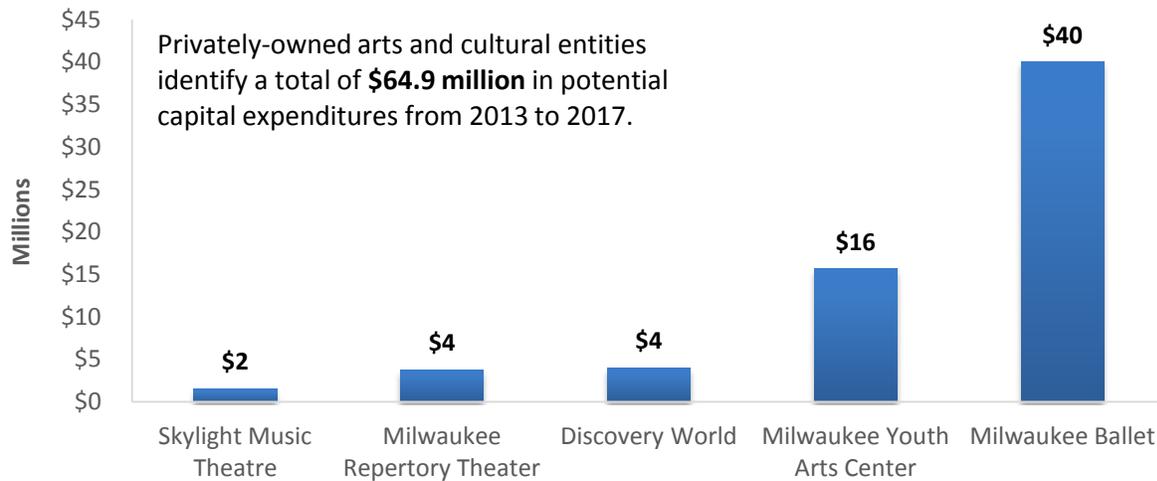


Notwithstanding those revenue challenges, we found that the operating challenges facing most of the privately-owned institutions were of a smaller magnitude than those faced by the entities housed in county facilities. In fact, most of the privately-owned organizations aspired most to build larger endowments and reserves to provide cushion in years when attendance suffers, and as a means of addressing unanticipated maintenance and repair needs. That contrasts with many of the institutions housed in county facilities, which have faced severe structural challenges tied to unattainable revenue projections, increasing personnel costs, and long lists of deferred infrastructure maintenance.

We also found 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 facilities and growing basic repair and maintenance needs. Meanwhile, three of the institutions – 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. As shown in **Chart 9**, the six privately-owned institutions have identified about \$65 million of capital needs in the next five years (not including a possible new symphony hall for the Milwaukee Symphony Orchestra, which does not yet constitute a formal project and would fall outside of the five-year timeframe).



Chart 9: Projected five-year capital funding needs for six privately-owned cultural entities

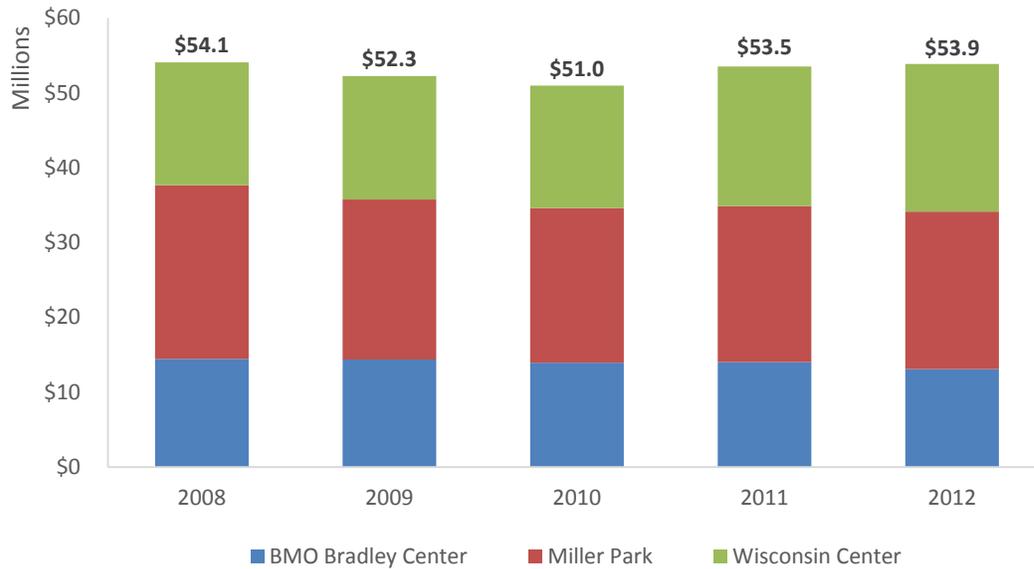


Our analysis suggested that if there is interest in including privately-owned arts and cultural organizations in a new dedicated public funding source, then policymakers may wish to consider a time-limited source of support, perhaps using a competitive grants process. Instead of trying to replace private 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.

Sports and Convention Facilities

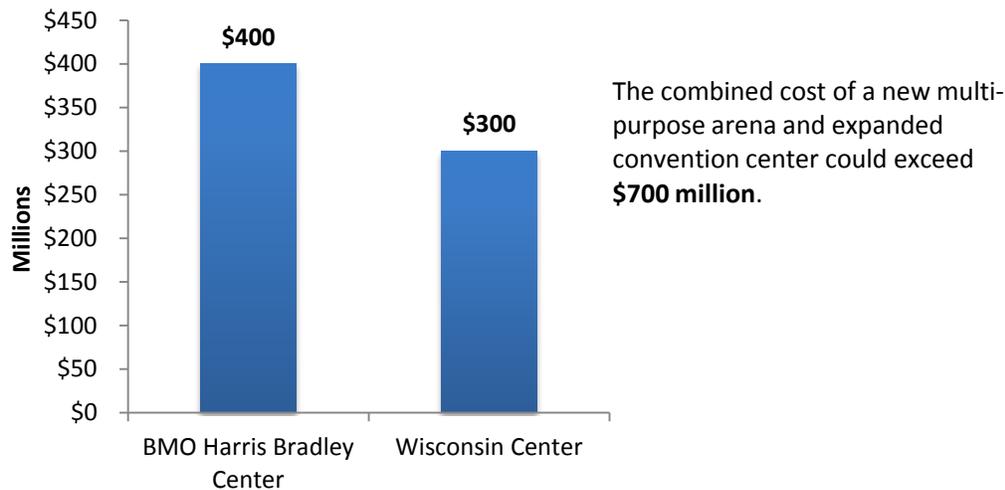
In several other metro regions across the country, the debate regarding dedicated public funding sources for arts and cultural institutions has extended to sports and convention facilities, as well. Consequently, our first report contained brief overviews of the finances, governance, and infrastructure needs of Milwaukee’s three major sports and convention facilities: the BMO Harris Bradley Center, Miller Park, and the Wisconsin Center. Collectively, as shown in **Chart 10**, these entities spend nearly \$54 million annually to host sporting events, concerts, convention activities, and other entertainment events for residents and visitors.

Chart 10: Major Sports and Convention Facilities Total Operating Expenses



We found 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. For the BMO Harris Bradley Center, that investment would entail either a new or renovated multi-purpose arena, while the Wisconsin Center is eyeing a possible expansion. Combined, the cost of those projects could exceed \$700 million, as shown in **Chart 11**. It is likely that much of the funding to support those projects would need to come from public funding sources.

Chart 11: Potential five-year capital funding needs for BMO Harris Bradley Center & Wisconsin Center



Conclusion

Overall, our report on the financial and physical needs of Milwaukee County’s arts, cultural, recreational, and entertainment facilities found substantial facility needs that will pose a serious challenge to both public and private owners. On the operating side, those needs were somewhat less acute. Nevertheless, for many of the organizations we studied, long-term operating stability is tied closely to their ability to secure resources to embark upon major capital improvements, or to address major repairs and maintenance of aging facilities.

The fact that substantial needs exist for our cultural and entertainment assets does not necessarily lead to the conclusion that new or enhanced public funding mechanisms are required to address those needs. The capacity of private investors and Greater Milwaukee’s philanthropic community to finance some or all of the identified capital needs – and to enhance support for operations – has not been fully explored. In addition, whether southeast Wisconsin has the resident and visitor demand to support each of these institutions at the box office or ticket window is a question that needs to be considered and that could impact the size or need for any potential public funding approach.

Furthermore, we have reminded policymakers that the needs and challenges facing cultural and entertainment institutions must be considered in the context of infrastructure needs facing other important community assets, such as schools, transportation systems, and law enforcement agencies. Where culture, recreation, and entertainment fits into the overall spectrum of government-supported services that may be seeking additional taxpayer resources is an important question that merits careful deliberation.

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.



APPENDIX II

Support for Cultural and Entertainment Assets Extends Beyond Primary Dedicated Public Funding Sources

The five metropolitan areas reviewed in this report employ a range of funding mechanisms for cultural, recreational, and entertainment assets that augment the dedicated funding sources described in the preceding pages. Policymakers wishing to pursue a new funding mechanism in Greater Milwaukee should consider the funding mechanisms already in place here as well as the strategies other metro areas use to complement dedicated funding. The following are some examples:

Cultural districts and cultural trusts – Some regions feature designated geographic areas – which often can be a segment of downtown – that receive special emphasis and support for arts and cultural activity. These areas and the support they receive are coordinated by a municipal agency or private nonprofit. For example, the *Pittsburgh Cultural Trust* is a nonprofit founded to develop, manage, and promote the Pittsburgh Cultural District, a 14-block area of downtown Pittsburgh. As of the end of 2012, the trust generated about \$50 million in revenues, most of which is from private sources and earned revenue.

Stadium authorities and/or dedicated taxes for sports and convention facilities – Two of the metro areas we reviewed employ public funding mechanisms to support professional sports facilities that are distinct from their dedicated arts and cultural funding sources (and that were adopted before arts and cultural funding sources were adopted). Denver’s professional football and baseball stadiums were financed in part through the creation of stadium districts that levied a one-tenth-cent sales tax. Cuyahoga County, meanwhile, has employed a mix of “sin” taxes to support its professional sports facilities (taxes on beer, wine, and liquor plus a 4.5-cent-per-pack cigarette tax that is separate from the 30-cent-per-pack arts and culture tax), and has also used a 0.25% sales tax to help finance a new convention center. Here in Milwaukee County, of course, separate public financing mechanisms exist for Miller Park and the Wisconsin Center District.

Lodging taxes – Many cities levy taxes on hotel and motel room charges that often are used to fund convention & visitors bureaus, convention centers, and other tourism-related needs. Other related uses include improvements to sports facilities, city facilities, and transit. Examples we encountered include hotel/motel taxes of 5.5% in Cuyahoga County, 7% in Allegheny County, and 10.75% in Denver. In Milwaukee County, a 2.5% hotel/motel room tax supports the Wisconsin Center District, as does an additional 7% room tax in the City of Milwaukee.

Arts councils and commissions – Many regions use a local arts council or commission to distribute public monies secured through the federal National Endowment for the Arts and other sources not included in their primary dedicated funding mechanism. For example, the Greater Pittsburgh Arts Council acts as a regional distributor of state and federal arts funding, as well as local foundation grants funneled through the Pennsylvania Council on the Arts. In St. Louis, the Regional Arts Commission



distributes a portion of the City of St. Louis and St. Louis County lodging tax to provide support specifically to organizations not funded through the ZMD.

Special purpose revenue funds collected by municipalities – Some cities embed earmarked funding within city budgets as a way to provide protected revenue streams for specific assets. Oklahoma City employs a number of these special revenue funds, including its Zoo Sales Tax Fund, generated by a one-eighth-cent sales tax that finances the acquisition and maintenance of zoo facilities, buildings, and property as well as operational expenses related to education, conservation, and research.

Gaming funds – Another common practice is the use of funds generated through gambling (e.g. horse racing, state lottery, table games, or slot machine fee proceeds) to fund arts, culture, and entertainment in a given city or region. Colorado Creative Industries, a division of the Colorado Office of Economic Development and International Trade, directs a percentage of the state’s Gaming Fund to a variety of arts and cultural efforts such as cultural districts, community organizations, elementary and secondary schools, municipalities, libraries, and various community events.

Special revenue streams for parks and recreation districts – Several regions across the country have created political subdivisions with dedicated public funding streams devoted to parks and recreation. The Great Rivers Greenway District in the St. Louis region, for example, is a regional park and recreation district funded by a one-tenth-cent sales tax levied in the City of St. Louis, St. Louis County, and St. Charles County. The tax generates about \$10 million annually, allowing the district to develop and manage a vast network of greenways, parks, and trails in the St. Louis region. The district also played an instrumental role in proposing and advocating for an initiative approved by City of St. Louis and St. Louis County voters in April 2013 that is projected to raise \$780 million to fund parks maintenance, expand a regional trail network, and renovate the Gateway Arch and grounds.





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