

## MAYOR'S TASK FORCE ON CULTURAL FACILITIES REPORT AND RECOMMENDATIONS

Charlotte and the surrounding region have been the beneficiaries of a unique public-private partnership which has produced, over the years, an outstanding array of cultural facilities. Those facilities have contributed greatly to the quality of life here, have helped make Charlotte an attractive relocation destination for major corporations and have been a positive factor in much of the economic development which has made Charlotte a vibrant and wonderful place to live. However, some of those cultural facilities are now in need of substantial renovation, while entirely new facilities are needed to support the activities of various cultural affiliates.

In January of 2004, a Blue Ribbon Committee presented a Cultural Facilities Master Plan ("CFMP") to our City's elected officials. The CFMP was a result of a long and thorough consideration of priorities within the cultural community and contained what has now become a list of priority one projects which the drafters of the CFMP propose be renovated or constructed in the near term, or over the next five to seven years. Other projects or needs were identified for longer-term consideration and action. Also included was a financing strategy.

In response, Mayor Pat McCrory established the Mayor's Task Force on Cultural Facilities on June 1, 2004, with the request that the Task Force prepare recommendations for consideration by the City Council as soon as practicable. In addition to Task Force members, Bobby Shields, the Assistant Manager for Mecklenburg County, attended a number of our sessions as did other members of the City Council, representatives of various arts groups, Lee Keesler (new head of the Arts & Sciences Council) and other interested citizens. The Task Force was ably assisted by Carol Jennings, Hazel Dorsey, Robert Bush and Ruffin Hall, and the members of the Task Force express their appreciation for their dedicated support.

One of the most attractive things about the CFMP was that it was an attempt to establish a comprehensive and coordinated long-term approach to the construction and renovation of cultural facilities. Rather than relying on multiple, competing "every person for themselves" fundraising campaigns, the CFMP

attempted to prioritize all cultural facility needs so that public and private sector contributions could be made with the certainty required to spur maximum support. The Task Force endorses this comprehensive approach and expresses appreciation to the Blue Ribbon Committee for its hard and productive work.

Before making recommendations, the Task Force believes that it would be helpful to review a number of background facts:

1. The six priority one projects addressed by the Task Force were:
  - a. The Mint Museum of Art
  - b. Discovery Place
  - c. Bechtler Art Museum
  - d. 1,200-Seat Performing Arts Theater
  - e. Afro-American Cultural Center
  - f. North Carolina Dance Theater

While the initial CFMP request regarding the Mint Museum was for land, planning and endowment only, the Task Force considered the entire Mint Museum relocation as a priority one project.

2. The initial priority one project request of the City was for \$88,000,000 in funding, all for capital projects, which was to be matched by private sector contributions of \$88,000,000, all as itemized on Attachment 1. While not a capital project, some \$7,000,000 of the private sector fundraiser was designated for the Charlotte Symphony's Endowment, with some \$3,000,000 already raised by the Symphony.
3. The priority one projects are at different stages of development with some being well defined while others are, at best, at the conceptual stage.
4. While substantial attention was paid to project cost estimates, in light of recent hyperinflation in the construction industry, the cost estimates for priority one projects are in need of further validation and verification by the City Engineer's office and/or by a

professional program manager. Appropriate contingencies, if not already included, should be addressed.

5. The CFMP funding proposal requested that the City pay all construction costs for new and renovated facilities, with the private sector fundraising being devoted to endowments and non-capital items. In addition, \$14,000,000 in funding was requested from the County.
6. The CFMP proposal also assumed that the City would continue to pay operating, as opposed to programming, expenses for each City-owned facility.
7. Operating expenses include utilities, janitorial, security, cleaning, landscaping, minor repair and related activities. For fiscal 2005, the City has budgeted \$2,222,918 to pay such expenses. Incrementally increased operating expenses can be expected.
8. For fiscal 2005, the City's overall budget for supporting cultural organizations or facilities was \$9,268,652 (see Attachment 2) or 2% of the general budget (General Fund, Pay-As-You-Go, and Debt service). The County's funding of cultural facilities and programs is budgeted to be \$4,053,129 for FY 2005 (see Attachment 3).
9. As a result of a careful but not yet final analysis of likely construction costs, the total capital program is likely to cost approximately \$130,000,000 (versus the original \$88,000,00), even with the possible co-location of the Mint and Bechtler facilities. See Attachment 4.
10. From 1977 through 2002, approximately \$249,000,000 has been raised for capital, endowment and related cultural facility needs here, some \$103,000,000 from the public sector (including \$22,000,000 from the State of North Carolina) with the remainder of \$146,000,000 from the private sector (see Attachment 5). Also, in 2003, the Mint raised over \$6,000,000 for endowment.
11. From 1998 through 2002, the private sector, in addition to the Arts and Sciences Council Fund Drive, has raised an average of approximately \$11,500,000 per year to support cultural facilities and affiliates. From 1990 through 1995, the same private sector raise averaged approximately \$12,000,000 a year. (see Attachment 5).

12. The City's budget and financial situation is such that there is limited debt headroom for additional capital construction. Accordingly, the City has very limited ability to issue debt to pay the capital cost of construction or renovation of cultural facilities.
13. One of the keys to being able to fund an ambitious cultural facilities construction plan is the City's ability to leverage new or uncommitted revenue streams through its ability to issue debt. Such available revenues can typically be leveraged on a 12 to 1 basis to fund capital projects. This ratio will be affected by the revenue source used and the financing instrument selected.
14. As opposed to this type of positive leverage, endowments represent a form of "negative leverage" in that while substantial amounts are raised and are theoretically available for use, what is actually available on a yearly basis is typically only the investment return on the principal, which in today's economy may result in a \$10,000,000 endowment contributing only \$400,000 to \$500,000 per year even with the best and most prudent money management.
15. An important guiding principle for development of the CFMP was Responsibility (see Section 2.2 of the CFMP dated January, 2004). This concern for fiscal responsibility was cited as present at all levels of the community, from potentially prominent donors to corporations with a past record of large contributions, to elected officials as well as the Boards and members of cultural affiliates. In essence, everyone agreed that the principle of responsibility required that capital plans should be accompanied by responsible projections of operating costs and revenues, backed by credible plans of how each institution would be sustained. Hand in hand with this principle of responsibility was the projected need to find "imaginative new directions in potential funding."
16. Responsibility for operating costs, as opposed to capital costs, has been debated for some time. While there is anxiety about cultural facility affiliates being able to pay all of their operating costs, new and renovated facilities should create opportunities for additional

revenue which should help bridge this gap. In addition, it is better from a management and accountability perspective to place responsibility for paying operating costs on the affiliates who manage and control the pricing of the facilities (a more “private sector” model). In that regard, the public should expect some changes – perhaps significant changes – in how the use of facilities is priced if cultural affiliates assume responsibility over time for all operating expenses.

17. The need for renovation and construction of cultural facilities must be considered in the context of other City and regional facility needs, with appropriate flexibility being preserved to deal with additional capital projects. For example, careful consideration must be given to the prospect of attracting a Motorsports Museum to Charlotte, to the subject of Convention Center expansion, to the possible location of a Minor League baseball stadium in or near the center City and to projects or expenditures which benefit the tourism and hospitality industry. Stated differently, there must be enough “dry powder” left after the cultural facilities plan is funded to deal with other community needs.
18. While there has been considerable discussion of locating the Bechtler Art Museum at a restored Carolina Theater site, the Task Force believes a different location for the Bechtler is more appropriate (a sentiment shared by representatives of the Bechtler Collection). Accordingly, the Task Force has not dealt further with the Carolina Theater.
19. Co-location of cultural facilities (cultural facilities being located adjacent to each other) is desirable because it permits the sharing of infrastructure such as parking, meeting rooms, bathrooms, restaurants, auditoriums and office space.
20. While there was some discussion about how efficiently cultural facilities have been operated in the past, the facts (comparing BOMA EER <sup>1</sup>data for Charlotte with actual operating

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<sup>1</sup> BOMA is Building Owners and Managers Association. The EER is a nationally recognized commercial real estate guide for cost data.

experience) demonstrate that our cultural facilities have been well and efficiently operated from a facilities management perspective.

## RECOMMENDATIONS

The Task Force believes that the priority one projects were properly chosen as the focus of the CFMP and should be the first projects funded from public and private sources. However, after months of deliberation and analysis, it is the clear conclusion of the Task Force that a new model, which is both attainable and sustainable, for the funding of the construction, renovation and operation of cultural facilities is needed. Importantly, no across the board property or sales tax increase is recommended to support this new model. The first step toward this ultimate goal will be for cultural affiliates to begin paying more and more of their operating expenses such that the City, over time, can transition out of the role of paying any operating costs for City-owned cultural facilities. Each affiliate should be charged with preparing a transition plan which demonstrates how – and by when – such self-sufficiency can be attained. The City, however, as owner, should continue to be responsible for capital maintenance.

The primary rationale for the City to exit the business of paying operating costs for cultural facilities is that the City can leverage new income streams or uncommitted dollars to issue debt to fund capital costs. The City is thus able to positively leverage available, uncommitted funds at a ratio of approximately 12 to 1 which means that the dollars the City would devote to paying operating expenses (today nearly \$1,500,000 and projected to be approximately \$2,800,000 in a few years) could produce capital funding of approximately \$18,000,000 to \$34,000,000. The City also has the experience to manage large capital projects in the City Engineer's office while no affiliate can claim that one of their core competencies is the management of a large capital project.

The second major step recommended is to consider extending the contemplated private-sector fundraising drive in order to accommodate an increased target. Some percentage of the funds raised during the first years of this campaign (not to exceed \$10,000,000) should not be immediately devoted to endowments but should, instead, be set aside to guarantee that there are funds available to pay operating cost deficits during the transition period. The ability to utilize this fund should be controlled by a to-be-

named Task Force which includes both public and private sector representatives. The availability of this fund should by no means be taken as a sign that the transfer of responsibility for payment of operating costs from the City to the affiliates is negotiable or that non-compliance will be tolerated. Rather, this fund would be a stand-by fund which, hopefully, would not be needed and which could later be transferred to endowment or other uses. Any affiliate needing to draw upon the fund would need to "repay" the fund either through a reduction in endowment from the private sector campaign or through other means. Alternatively, a portion of the private sector fund raise could be devoted to payment of operating costs generally or for a specific affiliate.

The new construction and renovation program should be carefully coordinated by the City Engineer's office, perhaps aided by a professional program manager, and phased to match the availability of debt capacity and the transition plan for transfer of operating costs. This will ensure consistency, increase control and give private-sector donors comfort that best practice will be utilized in connection with all construction activities, as well as comfort that the new model is financially attainable. Given the depth of design and construction expertise in the Charlotte market, consideration should also be given to asking for in-kind contributions from developers, design firms and contractors involved in actual capital projects. Budgets should be set for the capital portion of each new or renovation project and each facility should become responsible for adherence to that budget.

In addition to the capital made available by transitioning the City out of its current responsibility to pay cultural affiliate operating costs and backstopping that effort with a larger private sector fund raise, additional steps need to be taken to fund the capital program of approximately \$130,000,000, plus contingencies if needed. The following specific additional recommendations are made for Council consideration:

- a. Obtain legislative approval to increase the rental car tax by 5% which will generate approximately \$5,600,000 per year in new revenue. Assuming passage of legislation by the State in 2005, up to \$67,200,000 will be made available to fund capital costs through the City's ability to leverage this new revenue.

- b. Place a parking surcharge on Center City parking spaces. It is expected that a \$.25 per weekday parking surcharge on each of such spaces will generate \$2,000,000 per year in revenue, which the City will leverage to pay capital costs.
- c. Where feasible, the development of new cultural facilities should go hand-in-hand with commercial development (culturally “anchored” mixed use, for example), utilizing commercial development expertise and private capital to help reduce capital costs or create increases in tax bases which can be used to fund part of the capital cost of the cultural facility. The passage of Amendment One – the self-financing bond referendum – should make this easier to do.
- d. Consider raising the Center City municipal service district tax rate, if the parking surcharge item does not work.
- e. If needed, given the final priority one projected cost, impose a ticket surcharge for events at Cricket Arena and Ovens Auditorium (this is not a ticket surcharge or price increase for other cultural facilities, the proceeds of which will be used by affiliates to pay operating costs) and leverage the resulting new income to pay capital costs for priority one projects.
- f. If needed, given the final priority one projected cost, request the private sector, specifically the Carolina Panthers and the Charlotte Bobcats, to voluntarily impose a ticket surcharge, with all proceeds going to the City so that additional debt could be issued to support the construction or renovation of priority-one projects.
- g. The City should assume it will continue with its direct financial support of the Arts and Sciences Council at current levels.
- h. Finally, after an opportunity for full discussion and consideration, as a matter of public policy, we recommend that the City decide to allocate a specific percentage of its general budget (General Fund, Pay-As-You-Go, Debt Service) each year to support cultural facilities. This transition would occur over the same period of time as the other financing recommendations play out and the private-sector fundraising takes place and would result

in a situation in which there would be a dedicated revenue stream available to fund the future non-priority one capital projects, to backstop the City's commitment to pay capital maintenance and, on a last resort basis, to address any operating costs not covered by the operating cost deficit safeguards otherwise recommended.

There are some "standby" sources of revenue which may be used as a last resort but would be better held for non-cultural project capital needs:

- a. As current levels of debt service on cultural facilities drop, the difference between the current level of debt service (projected to be approximately \$2,400,000 in 2005) could be made available to be leveraged to fund future capital needs (to the extent not already dedicated to other projects).
- b. Any proceeds from the disposition of current City-owned assets not already earmarked for another purpose could be used as a one-time contribution to the operating deficit guarantee fund or to fund non-cultural facility capital needs.
- c. In order to have the ability to issue new debt in connection with non-cultural facility construction needs, the following potential income streams should be isolated from methods used to fund the cultural facility construction program:
  - 1) Any growth in the Convention Center fund beyond the amount reasonably needed. To the extent that any decision is made to forego Convention Center expansion by 2011, the fund under appropriate circumstances could be used to generate revenue streams which can be leveraged to fund other public projects.
  - 2) The proceeds resulting from passage of House Bill #1316 (the NC Travel and Tourism Investment Act) and any tax rebates there from should be reserved for future non-cultural facility capital needs.

- 3) Any identifiable increase in the center City property tax base should be considered as an additional income stream which can be leveraged to pay non-cultural facility capital costs.
- 4) To the extent that there are further needs for capital to fund non-cultural facility construction projects, consideration could be given to an increase in the prepared food and beverage tax.

The Task Force has other, non-financial recommendations. First, the County and surrounding towns should become involved in what becomes a regional approach to the funding of cultural facilities. In addition to direct financial involvement, support from surrounding towns may at a minimum be helpful to get passage by the State Legislature of authority to generate additional funds to support the capital program.

Secondly, in addition to dealing with the priority one projects set forth in the CFMP, and in the context of other looming capital projects which will benefit the City and surrounding region, a comprehensive City-owned facility plan should be developed which deals with existing facilities such as Ovens Auditorium and Cricket Arena. To the maximum extent possible, collaborative management of city-owned facilities should be considered in order to minimize conflicts, reduce inconsistencies in use and increase the efficiency of operation of City-owned assets. Where appropriate, disposition of City-owned assets should be considered as other, newer facilities are able to fill needs.

## CONCLUSION

While the Task Force recognizes that it is the responsibility of the City Council to decide what ultimately happens, we thought it would be helpful to briefly address next steps. Assuming submission of this Report and Recommendations in January, 2005, City Council consideration should begin during a February, 2005 retreat, with appropriate action then being taken to brief the

Mecklenburg County Legislative Delegation about possible legislative action which might need to be taken during the next session of the Legislature.

At the same time the City Council begins its consideration of where funding for Cultural Facilities ranks in terms of civic priorities, the affiliates themselves could continue with planning for their capital projects so that if City Council approval and subsequent Legislative action creates funding sources, projects are ready for construction. A program schedule, depicting the likely timing of projects so that the availability of funds can be matched to realistic projections of construction, will be prepared and submitted to the City Council as soon as possible. To the extent that the availability of funds to support the capital program recommended by the Task Force necessitates further consideration of the prioritization of projects, the City Council could ask the Task Force to come together again to assist with that process or deal directly with the Arts & Sciences Council, given its relationship with the affiliates.

At the same time the City Council is considering our Recommendations, the private sector fundraising campaign could be "resized" based upon the proposed capital program which affects the level of endowment necessary to support programming. We recommend that those heavily involved in conceptualizing the private sector fundraise which accompanied the CFMP proposal to the City begin immediate consideration of the size and duration of the private sector campaign needed to support the projects which are part of this Recommendation. That group could then quickly attempt to get an indication from the private sector about its willingness to support such a "resized" campaign. Lee Keesler has agreed to facilitate such discussions.

The affiliates themselves should finalize business plans which indicate the steps they are going to take to assume responsibility for payment of the operating costs currently borne by the City. A process has been proposed in the Recommendations to consider those business plans and the ability of the affiliates to demonstrate self-sufficiency no later than the date when newly

constructed or renovated facilities come online. This would have a positive impact on City Council consideration of the capital funding request.

Finally, throughout the consideration and discussion of these Recommendations, our Task Force members have agreed to make themselves available to participate in the dialogue and to support these Recommendations.

Respectfully submitted,

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