



**Testimony of
Kathleen M. Fox, Executive Director**

To The

**Ohio Senate
Finance Committee**

The Honorable Chris Widener, Chairman

May 4, 2011

Good afternoon, Chairman Widener and members of the Senate Finance Committee. I am Kathy Fox, executive director of the Ohio Cultural Facilities Commission, where it has been my privilege to serve the people of Ohio for nearly 18 years.

On behalf of the Commission members and staff, I appreciate the opportunity to testify before you regarding the Commission's operations for the upcoming 2012-2013 biennium.

Today I will address the Commission's role in protecting public funds and adding value to cultural facility projects, while contributing to economic development in Ohio's communities, and our Secretary-Treasurer will provide his observations about the Commission's work.

About the Commission: Building Culture in Ohio's Communities

The Ohio Cultural Facilities Commission ensures wise stewardship of capital improvement funds appropriated by the General Assembly and Governor for construction, renovation and expansion projects at Ohio's nonprofit theaters, museums, art education facilities, historical sites and publicly owned professional sports venues.

All of the projects undertaken through the Commission are chosen by the General Assembly and Governor and assigned in legislation because of their cultural significance to Ohio and, importantly, due to their ability to strengthen the State's economy over the short and long terms. During its history the Commission has been assigned nearly \$520 million for over 300 projects of various sizes and complexities. The Commission has partnered with non-profit groups and local governments in your districts to build, renovate or expand cultural facilities spread among 72 of Ohio's 88 counties.

Just a few of the project partners with whom the Commission is currently working include Allen County Historical Society; Ariel Theatre in Gallipolis; Cincinnati Zoo & Botanical Garden; Chesterhill Union Hall Theatre in Morgan County; Great Lakes Science Center & Steamship William Mather in Cleveland; McConnell Arts Center in Worthington; Clark County Performing Arts Center in Springfield; Spring Hill Historic Home in Stark County; and Stan Hywet Hall and Gardens in Akron.

Protecting the Public Trust: Accountability for State Investments

The Commission takes seriously its responsibility to be good stewards of Ohioan's tax dollars. The Commission plays a vital role in protecting public funds through the oversight of millions of dollars in State capital improvement funds. We carefully evaluate every project assigned to our agency prior to releasing the appropriated funds. Our statutory charge is to determine that there is a need for each project, and that it has substantial regional support. We uphold these statutory standards by:

- Reviewing business and management plans to assess the potential of the facilities to operate successfully once construction is complete; and
- Ensuring the local financial commitments are in place that will result in completed projects.

Our assessment of these criteria is particularly important because nearly all the projects assigned to the Commission have been bond-funded projects.

The Commission is committed to performing diligent up-front evaluation of projects, not only to protect public investment in community capital projects, but also to protect the State's bond rating.

The Commission's diligent oversight helps maximize the State's return on investment, prevents waste of public funds, protects the State from future costs and liabilities that would result from projects that might fail, and guards the state's bond rating.

These economic times have placed additional pressures on cultural organizations and their funding sources including private donors, foundations, corporations and government. It has become even more important that the Commission continue its diligence with the taxpayers' moneys and do so in ways that help projects move forward responsibly.

In one example, the Commission asked the local sponsors of a theater renovation project to demonstrate that they had sufficient funds to complete the project. During the financial review, the local sponsors discovered an accounting error that would have left the project \$1.5 million short of funds needed to complete the construction. Without the Commission's involvement, the project sponsors would have been unable to make timely payment to contractors and may not have been able to complete the renovation and reopen the theater. In a letter to the editor of the local daily newspaper, the president of the theater thanked all involved with the project, including the State of Ohio.

In another example, a mid-sized theater sought funds for renovations to its building. The theater faced a number of financial issues due in part to the recent economic environment. The Commission staff worked with the theater organization on ways in which to secure the state funds in the event the organization is not financially successful for the full duration that the state bonds are outstanding. The theater was able to obtain a guarantee against their endowment held at a local community foundation, which allowed them to receive the state bond funds without jeopardizing public monies. An article about the theater that appeared this past March indicates that the theater is showing signs of progress, including a 16 percent increase in programming.

A final example of how we've protected public funds from loss: A long-standing cultural institution in northern Ohio had ambitious plans to build an \$85 million museum to replace its existing, smaller museum. Two and a half million dollars in State capital funds for the project were appropriated to the Commission for oversight. The local organization spent \$18 million in locally-raised funds on planning, architect's drawings, attorney's fees and exhibit design. Their capital campaign stalled at only \$32 million— not nearly enough to complete the project—and plans for the new museum were abandoned.

Although \$2.5 million in State funds could have been wasted on this project, the Commission's diligent application of statutory standards and careful oversight prevented the funds from being released for this poorly planned project. The \$2.5 million in State funds were instead made available for a viable project at their current location.

Producing Superior Results: Adding Value to Projects

We are proud of the vital role we play in protecting the State's investment in cultural facilities, and being accountable for the use of public funds. Our agency also adds value by partnering with sponsors of facility improvement projects of all sizes and offering technical expertise to help make their projects better.

In one example, we worked with a small-town historic house museum that opened to the public a few years ago. Conceived locally as an ambitious, multi-million dollar idea for which there were insufficient local funds, the Commission provided business advice and project oversight to direct State funds toward implementation of a first phase—so they could open to the public—while also assisting the local organization in thinking about possibilities for the future. In a letter to the Commission, one of leaders of the museum wrote, “In a day when we hear of ‘interference from Columbus’ on various projects, you were just the opposite. No one could have been more supportive, helpful and guiding than you were, and please know it didn’t go unnoticed or unappreciated.”

In another example, a community organization in northeast Ohio intended to use their capital appropriation to replace the seats in their theater. The Commission staff worked with the project sponsor to evaluate and prioritize their facility needs, helping them to understand that replacing the leaking roof was a more critical need than replacing the theater seats. Commission staff guided the project sponsor on how to hire an appropriate design professional for the project who was then able to recommend a cost effective solution to the complex roofing problem.

In another instance, planners of a new hall of fame museum were working towards an ambitious new facility and predicted a large annual attendance figure. Commission staff advised the project sponsor to conduct a market analysis to ensure the market would support projected ticket sales. Thanks to the market analysis, project planners realized they would not have been able to keep the facility operating had they moved ahead with their original plans. They built a smaller, less expensive museum, co-located at another, existing museum site, and the change saved \$3 million in State capital funds and allowed the project sponsor to complete the project without putting severe constraints on their day-to-day operations.

In a final example, the Commission held off on distributing State funds to a theater renovation project in northwestern Ohio until the sponsors raised the required local share. While some members of the community were initially concerned about the Commission's decision, they eventually realized the importance of our role and thanked the Commission in a newspaper editorial, stating that their city “...can be grateful that when the State of Ohio honored its commitment to provide a substantial percentage of

the project's cost, it also required the creation locally of a \$5 million endowment. The endowment...is a hedge against future needs and a statement by the community that it recognizes what it has in this wonderful old building and will not let it fail.”

The Commission provides this kind of assistance to all sizes and complexities of projects. As our number of project assignments has gone up, the average dollar amount appropriated to each project has gone down. It is no longer unusual for our agency to assist small, local historical societies with projects as small as \$5,000 or \$50,000, or to find ourselves working with nonprofit organizations so small they are run entirely with community volunteers. In one such instance, a small historical society's corporate and nonprofit status was not properly registered with the Secretary of State or Attorney General's office. Our project manager assisted them so they would be in compliance with Ohio's charitable organization laws and move their project forward.

We are proud to provide this type of personalized attention and technical assistance to local project sponsors, and we are equally proud that in customer service surveys, local sponsors indicate they are extremely pleased with our responsiveness and guidance. There is a fact sheet in your folders summarizing our recent customer service feedback. Surveys conducted over the last year give the Commission staff an overall score of 95 out of 100 on important customer service measures, and the respondents strongly agree that our staff is knowledgeable, friendly, helpful, thorough and customer-oriented. One local sponsor wrote, “Every person I have had contact with has made me feel that our project was the most important to us and them.” Another commented, “The Commission and staff take their work very seriously, convey an appropriate sense of accountability and provide useful direction to our organization. We value their role highly.”

Rightsizing the State's Involvement in Community Capital Projects

The Commission continuously strives to provide the appropriate level of oversight in order to protect public funds and ensure those dollars result in successful projects that benefit communities. In our efforts to be efficient in our project assessments and responsive to both local project sponsors and members of the General Assembly, the Commission has undertaken several initiatives to streamline the project review process. These improvements have come as a result of our own observations and feedback we have received from project sponsors and legislators.

For example, we sought and obtained the option for local project sponsors to provide construction administration for arts and cultural facilities when the local sponsor can demonstrate their capabilities to do so. Previously, State law required the Department of Administrative Services to be the contracting authority for arts and cultural facilities. We

believe this was an important and beneficial change because it provides for local control of the construction project, simplifies the process, reduces administrative costs and project delays, and reduces liability for the State. Nearly all of the projects we oversee are now managed locally.

In another example, previously all of our bond-funded projects required project sponsors to lease their facilities to the State. We sought a change in our bond issuer from the Ohio Building Authority to the Treasurer of State, eliminating this requirement. The Treasurer of State uses a “financing lease” and the Commission in turn signs a Cooperative Use Agreement with local sponsors, rather than a real property lease. Although this change requires even more careful up-front assessment of projects by the Commission because it eliminates the State’s safeguard of a real property interest, it is a significant improvement for local project sponsors who either could not, or were reluctant to, lease their facilities to the State.

The Commission remains ready to discuss other changes to standards or processes whenever the General Assembly is prepared to do so.

Cultural Facilities as Catalysts: Making a Positive Impact on Ohio’s Economy

Cultural facilities add value to Ohio’s communities in multiple ways, particularly as tools to promote community and economic development. Cultural facilities play a vital role in the creative economy, driving community revitalization, generating tourism, creating jobs and tax revenues, providing hands-on educational opportunities that result in development of critical thinking skills, and enhancing the quality of life for all Ohioans.

A Sound Investment

Investing in cultural facilities offers an impressive return on investment. A recent study by Americans for the Arts shows that in Columbus alone, the arts and culture industry generates more than \$330 million in economic impact each year. The same study reports that, on a national basis, local, state and federal governments’ investment in the arts generates a 7:1 return on investment annually. In January 2009, the National Governors Association released a report entitled “Using Arts and Culture to Stimulate State Economic Development,” and Ohio is among the states mentioned in the report for some of its practices related to arts funding and economic development.

Putting Ohioans to Work

Ohio is home to more than 23,000 arts businesses that employ over 88,000 people. Of particular importance in these challenging economic times, the construction, expansion and restoration projects overseen by the Commission are labor-intensive

efforts that create jobs and stimulate local economies. Often a final piece of funding from the State can help take projects from mere ideas to implementation, generating an immediate economic impact through job creation.

Making Ohio Competitive

Studies also indicate that cultural facilities inherently add value by serving as the foundation of a creative economy. By providing diverse cultural opportunities, communities are better positioned to attract and retain the workforce of the new economy and influence the location decisions of CEOs and 21st century businesses.

A story in *BusinessWeek* in August 2006 noted that companies and talented workers tend to cluster in communities that offer not only suppliers and new technology sources, but also arts and cultural offerings. Many recent studies have indicated that the highly-desired “knowledge worker” chooses to relocate based on factors that include cultural amenities and “quality of place.” Investing in cultural facilities can help make Ohio’s cities and towns more competitive.

Driving Tourism and Direct Spending

Cultural facilities also make an economic impact on communities because they drive tourism and generate consumer spending in local economies. Statistics from Ohio’s Division of Travel and Tourism show that more than 4.6 million of Ohio’s tourists in 2007 visited a cultural facility. An economic impact study by Americans for the Arts found that attendees of nonprofit arts organizations spend an average of \$22.87 per person, not including admission prices. This means that, in 2007, over \$105 million was generated in Ohio due solely to the health of our cultural institutions.

Further, Ohio is ranked well above the national average in consumers’ ratings for “great museums and cultural attractions,” while travel expenditures in Ohio for 2010 totaled \$25 billion, supported 231,200 jobs in Ohio’s annual economy, and yielded \$2.78 billion in tax revenues.

Preparing Students for 21st Century Jobs

Cultural facilities provide a rich array of educational opportunities that supplement those available in Ohio’s schools. Education in the arts prepares students to be the creative problem-solvers needed for 21st century jobs. Arts education is proven to contribute to increased academic achievement and standardized test scores; higher levels of participation in positive activities such as community service; and lower dropout rates. Hands-on experiences offered at science and technology museums can help foster the development of Ohio’s future scientists and researchers.

A study released in 2008 by The Conference Board revealed that U.S. employers rate creativity and innovation among the top five skills that will increase in importance over the next five years, but that 85 percent of employers looking to hire creative people say they cannot find qualified applicants. Cultural facilities and the programs they host are critical to developing creative thinking abilities for Ohio's school children.

Sparking Community Revitalization

As for the positive impact by cultural facilities on community revitalization, our Commission has been privileged to witness numerous examples of this in projects in which we have been involved. Here are just a few examples:

- The current renovation of Washington Park, a historic, urban park located in Cincinnati's Over-the-Rhine neighborhood, will be the hub of cultural and arts events and include a 500 space parking garage to support the adjacent Music Hall and surrounding cultural institutions. The park is expected to be completed by late spring 2012.
- In northeast Ohio, the renovation of the Akron Civic Theatre was lauded in an editorial in the *Akron Beacon Journal*. The editorial cited the tens of thousands of people making the trip to downtown Akron from all over northeastern Ohio to spend time before and after shows in downtown Akron's restaurants and entertainment establishments.
- The Toledo Museum of Art's Glass Pavilion has drawn national and international acclaim to the City. The new wing has been featured in *Architectural Record* magazine; *The New York Times* and the *Los Angeles Times*; and was named "Best Museum" in *Travel + Leisure's* Design Awards.
- In Newark, the Ohio Center for History, Art & Technology, also called The Works, has been a key component of that city's revitalization by spurring the development of nearby loft housing and by creating space for numerous privately run businesses.

Managing Our Challenges

The Commission's challenge is to handle our responsibilities while maintaining a small staff and minimal operating budget. Less than five percent of our agency's overall operating budget accounts for internal operations, while more than 95 percent of the budget is for debt service. The Office of Budget and Management has calculated that

the proposed debt service line will be sufficient to make the required payments for the upcoming biennium.

To reduce costs, the Commission has implemented internal operating efficiencies. For example, last year the Commission reduced its office space by more than 25 percent to save the State money. The Commission also prepares most of its publications in-house and makes its information resources available through its website or e-mail to reduce printing and postage. This year the Chairman is paying out of his own pocket for travel costs for the Commission and staff to make some site visits to projects.

The proposed budget calls for a 7.3 percent reduction to the Commission's internal operating funds as compared to the agency's appropriation for fiscal year 2011. The proposed budget represents an 11.9 percent decrease from fiscal year 2008 appropriation levels. And although not sustainable for the long-term, we understand the challenging economic condition of the State and its budget, and will make every effort to continue to provide high quality oversight of capital projects and the best service we can with the reduced resources.

The Commission's gubernatorially-appointed secretary-treasurer Craig Marshall, CPA and managing partner of the Columbus Office of Ernst and Young, is here to provide his insight about the Commission and its role. We are very fortunate to have an individual of his caliber serving on the Commission and providing his expertise to our agency. With the Chairman's permission and in the interest of time, I'd like to give Mr. Marshall the opportunity to provide short testimony now, and then we can both be available for questions.