

# **An Analysis of the Operation and Funding Model of Wisconsin Historic Sites**

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## Executive Summary

Because of recent trends in declining attendance, increasing seasonal labor costs, and a fluctuating revenue stream, the State of Wisconsin's Historical Society's Historic Sites Division commissioned this study in order to address concerns of deficits. A quick look at the historic site's financial picture last year revealed the following:

- Total revenue = \$2,959,757
- Total expenditure = \$3,220,065
- Deficit = \$260,308
- Approximately 9 percent operating deficit

Our study found it desirable for the state to provide sufficient funds to cover historic sites' costs since we categorized the sites as a "public good." The budget category that left most doubt as to the proper funding responsibility was maintenance. If a portion of maintenance expenditures are used to maintain the historical sites, this spending can be characterized as "public." Running several simulation models we found a surplus of GPR with our percentage breakdown and a deficit when excluding maintenance cost.

We also investigated whether program revenues were adequate to cover those cost we categorized as "private" goods. Our analysis showed a deficit of approximately \$530,000. When we removed maintenance as a "private" cost, our data still indicated a deficit of approximately \$209,000.

Concluding that a deficit would occur no matter how maintenance costs were viewed, we decided to look at attendance to determine whether the decline had any effect on program revenue. Our results concluded that although admission pricing may be a factor in attendance decline, there was not sufficient evidence to attribute the decline in attendance solely to fee pricing. To help with the analysis we looked at two other states, Minnesota and Ohio, to see whether Wisconsin could benefit from adopting any of the practices of these states.

We found a number of mechanisms used by the states to cut program cost and increase revenues:

- Centralize collections care
- Develop volunteer management network
- Look for alternative funding sources including private donations
- Investigate possibility of parking fee
- Increase community collaboration and promotion

### *Special Cases: Villa Louis and Stonefield Village*

Villa Louis and Stonefield Village merit special consideration. Villa Louis experiences a GPR deficit no matter what simulation we run. Concurrently it also shows a surplus in program revenues (PRO) no matter how we integrate maintenance cost. In addition it has

steadiest attendance. Villa Louis is also the only site that is accredited by the American Association for Museums.

Conversely, Stonefield Village suffers from both a GPR and PRO deficit and is experiencing one of the highest attendance declines. We recommend additional analysis.

We understand that each site is unique. Nonetheless, we believe the analysis provided in this report may prove useful to the Historical Society when discussing operation-funding categories for each site. In the case of Villa Louis, there may be reason to pursue additional state funding.

Similarly, this analysis provides some evidence that further attention may need to be paid to Stonefield Village to determine what factors may be contributing to its deficit problems. Certainly, arguments for additional state funding may be discussed but other factors described in this report should also be considered: declining attendance, pricing mechanisms, and cost-saving techniques.

### *Recommendations*

1. Reevaluate maintenance budget category to help define funding responsibilities clearly and determine which maintenance expenses should be paid for by the state and which portion of maintenance cost should be paid for through program revenues. Possibly create two new budget categories, one for GPR funding and one for PRO funding.
2. Estimate cost of additional expenditures that may be needed to make historic sites eligible to be accredited by the American Association of Museums
3. Look at redefining interpretation programs to develop an argument for state funding. Review state statutes and charge
4. Develop a legislative strategy
5. Investigate factors that may be contributing to attendance decline.
6. Consult other states to develop a pricing mechanism that would accurately reflect visitor willingness to pay
7. Look at other states for ideas in cost savings:
  - Centralization of collections care
  - Development of management volunteer network
  - Finding alternative funding sources
  - Collaboration opportunities
  - Awareness and promotion opportunities

# **An Analysis of the Operation and Funding Model of Wisconsin Historic Sites**

by

Laurie Jerin, Thomas M. Phan, and Heather A. Priess

The Historic Sites Division of the State Historical Society of Wisconsin operates eight sites throughout the state. The division is responsible for preserving historic buildings at each site and providing interpretive programs designed to inform and entertain site visitors about Wisconsin's history.

The operation budget of these historic sites comes from three sources; annual state appropriations from the General Fund (referred to as GPR revenue), program revenues (PRO) from admission fees and auxiliary sales, and outside sources such as private donations, which we refer to as segregated funds (SEG). The majority of funding comes from GPR and PRO dollars with a small percentage coming from private donations. The majority of SEG funds go to one site, Madeline Island.

Rising costs in seasonal labor, recent trends in decreasing visitor attendance, and fluctuations in revenue streams have led to concerns within the Historical Society about the long-run financial viability of the Historic Sites program. Concerns regarding deficits and inconsistent revenue streams led the Historic Site staff to commission this study. This analysis focuses on three areas:

1. In an effort to help the Historical Society ascertain appropriate funding categories for budget consideration, this report classifies budget categories as public or private goods in order to help determine which share of the Historic Site's budget should be financed with public funds and which share should be financed through admission fees and auxiliary sales.
2. This analysis takes a brief look at attendance to determine what effects it may have on revenue streams and what effects admission pricing may have on attendance.
3. Examine the organizational structure and funding of Historic Sites programs in two nearby states in order to determine whether the operation of these programs offers useful lessons for the Historic Sites Division.

## **Historic Background**

The mission of the State Historical Society of Wisconsin is "to make the past live for Wisconsin's citizens and others because knowing the past helps us understand the present and prepare for the future."

The Historical Society was founded in 1846. A century later, in 1949, it became a state agency. The Historical Society occupies a unique place in state government, given that it is both an agency of the state of Wisconsin and a membership organization.

Because of this dual nature, the Historical Society has to make budget estimates that reflects both its roles—as a state agency as well as a private organization. This often leads to confusion regarding the appropriate funding responsibilities for each budget category.

The Wisconsin State Historical Society has several divisions, one of which is the Division of Historic Sites.

### *Division of Historic Sites*

According to the Historical Society's *1997-1999 Biennial Report*, the Division of Historic Sites "preserves historically significant buildings and historic artifacts representing many historical themes and stories. Interpretive programs and outreach are offered at the eight sites and history centers located throughout the state. . . ."

These sites provide interpretive programs, which attempt to portray people and places from different time periods in Wisconsin's past. The objective of the interpretation programs is to "recreate the aura of an age gone by" and to fulfill the mission of the Society in increasing public awareness of Wisconsin history.

The eight historic sites are

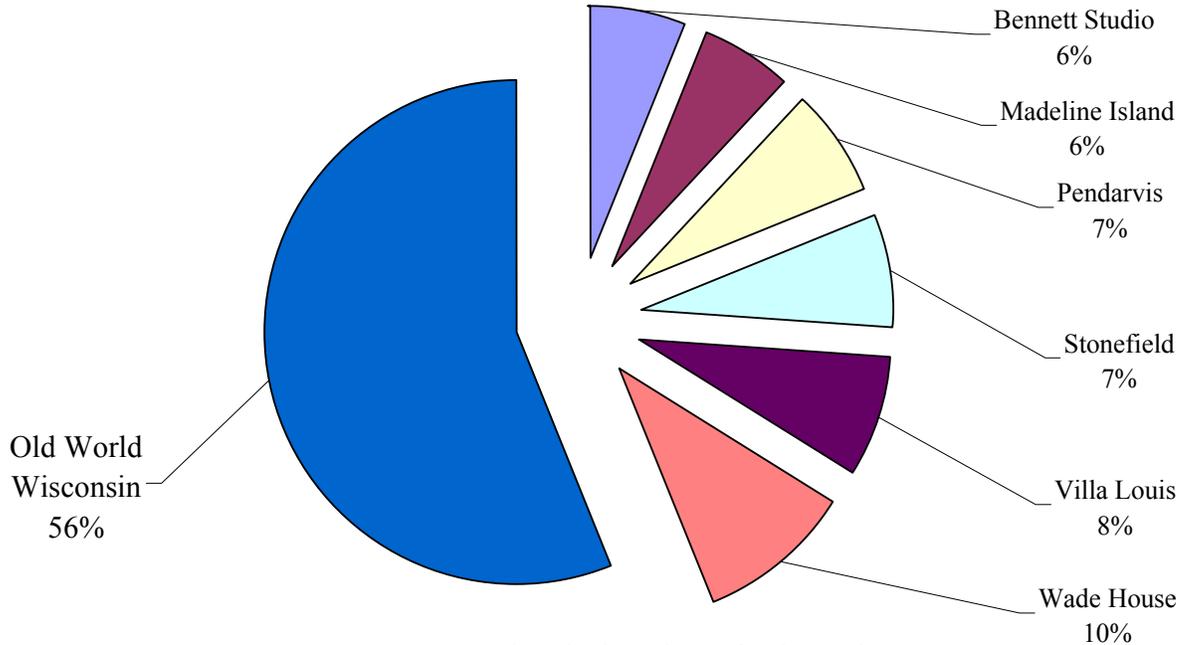
- First Capitol (Belmont)
- H.H. Bennett Studio and History Center (Wisconsin Dells)
- Madeline Island Historical Museum (La Pointe)
- Old World Wisconsin (Eagle)
- Pendarvis (Mineral Point)
- Stonefield Village (Cassville)
- Villa Louis (Prairie du Chien)
- Wade House and Wesley Jung Carriage Museum (Greenbush)

For a description of individual sites and their locations see appendix A. An additional site, Circus World Museum, is privately operated and not discussed in this analysis.

The largest site, Old World Wisconsin, has an operating budget of more than \$1.7 million, an amount equal to over half of the Historical Sites Division's total budget. In contrast, almost no funds are spent on the First Capitol site; it receives very basic maintenance care and has no site-specific staff. As shown in figure 1, the other six sites have budgets much smaller than Old World Wisconsin but similar to each other.

Figure 1

## 2001 Budget Breakdown By Site

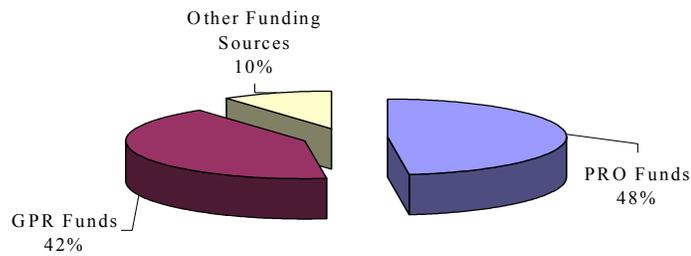


Source: State Historical Society of Wisconsin

The Division of Historic Sites receives funding from three sources: 1) the state of Wisconsin; 2) earned revenue through admission fees and auxiliary sales; and 3) from outside sources given to specific sites. Dollar amounts from program revenue funds vary from year to year. State and program revenues provide the bulk of funding. A small percentage of funding comes from private donations and other sources. The majority of these funds go to one site, Madeline Island. See figure 2 for revenue breakdown of the Historic Sites Division.

Figure 2

## 2001 Revenue Source for Historic Sites



Source: State Historical Society of Wisconsin

The Division of Historic Sites estimates that in the fiscal year 2001, approximately 42 percent of funding will come from State GPR dollars, 48 percent from PRO dollars, and 10 percent from SEG (See figure 2.) In addition, the Sites Division takes 5 percent of earned revenue from each site annually and puts it into a “rainy day” fund.

The rainy day fund was initially developed to help individual sites facing financial difficulty in an off year to cover their deficit. The theory was that sites would not consistently need the funds but if they did they would replenish them in prosperous years. The intent of the rainy day fund was to offset single unforeseen downturns in a site’s fiscal status. For example, an unusually warm summer could contribute to declining attendance at outdoor sites. Recently, however, large portions of this fund have been used annually for basic operating expenses. This is contrary to the intended purpose of the fund.

The Division of Historic Sites divides its activities into seven categories:

- Collections
- Administration
- Interpretive programs
- Visitor services
- Museum and souvenir stores
- Transportation
- Maintenance

Collections care refers to the basic upkeep of various historic items. Collections are maintained at each site rather than at a central location.

Administration cost refers to full-time salaries and fringe benefits for site directors and their assistants.

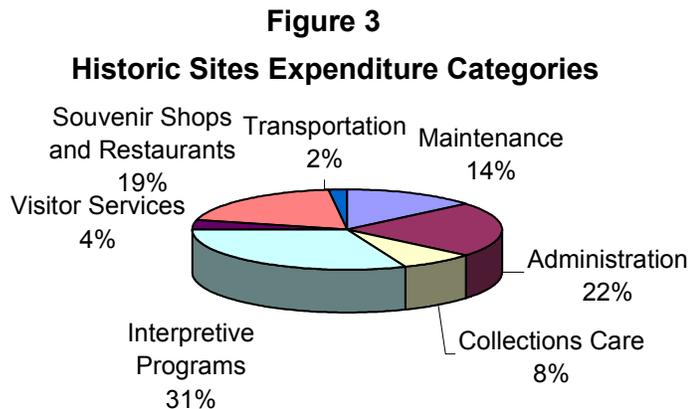
Interpretive programs make up the largest operational category at most sites, representing on average 30 percent of the sites' total budgets. Interpretive programs are used to present historical information to site visitors in an entertaining way, mainly by having guides role-playing historic characters and wearing period costume.

Museum stores include sales from stores as well as restaurants.

Transportation cost refers to tram rides that are offered to enhance the sites' interpretive program.

Visitor services tend to refer to ticket selling for interpretive program participation.

Maintenance costs include both custodial activity and the long-term maintenance of sites. The Department of Administration provides funding for major building and infrastructure repairs such as new roofing or glass replacement. Figure 3 displays the Historic Site Division's budget divided among the seven operational categories and indicates the percentage of the total budget that is allocated to each site.



Source: State Historic Society of Wisconsin

A number of factors in recent years have contributed to concerns regarding the financial situation and operations of the historic sites. The dependency on the rainy day fund has led to concerns of possible future deficit. As mentioned earlier, the fund was initially designed to cover unforeseen, uncontrollable circumstances that could lead to deficit.

The rainy day fund in July 1999 had a total balance of \$388,000. By July of 2000, this number dropped to \$98,000. That is a \$290,000 drop in the fund over a one-year period which may partly explain the budget deficit of the Historical Sites Division. In addition, many sites have experienced difficulties in recruiting employees to work in interpretive

programs, possibly due to the rural location of sites and the low unemployment rates throughout Wisconsin.

Wage increases designed to recruit more workers have resulted in annual increases in admission fees. The Historical Society's staff is concerned that rising admission fees may make historical sites less accessible to the public. These increased admission fees may or may not have led to another trend, declining attendance at most sites. These factors have raised concerns about future revenue streams. The Society's financial picture last year was as follows:

- Total revenue = \$2,959,757
- Total expenditure = \$3,220,065
- Deficit = \$260,308
- Approximately 9 percent operating deficit

In response to these circumstances, the Division of Historic Sites has commissioned this analysis to address questions of funding responsibilities in order to help clarify what expenditures should be paid by the state and what expenditures should be paid for by program revenue. By clearly defining funding responsibilities, the Sites Division hopes to have a clearer picture of what portion of its spending should be covered by program revenue.

The Sites division also requested that information be collected from other states known for their historic sites programs. Such information may help Wisconsin develop more effective ways to operate its historical sites.

### **The Challenge of Separating the Public from the Private**

Considerations of how to fund operations of the State Historical Society of Wisconsin present a unique challenge since the Society can be considered both a public agency and a private organization. As a public agency, the Society receives an appropriation biennially from the state legislature.

As a state agency it must adhere to the same regulations as other state agencies. The Historical Society is required to provide the legislature with an annual review detailing how the appropriated monies were used. Any unexpended funds are returned to the General Fund.

As a private organization, the Society operates like any nonprofit agency. Although the Society has more flexibility than a government department that relies entirely on state appropriations, it must nevertheless limit its spending to the sum of state appropriations and the amounts it can raise from other sources.

What has become increasingly confusing is what portion of the Historic Sites Division's responsibilities and related expenditures should be funded by the state and what portion should be paid for through program revenue or donations. This confusion has most likely

led to uncertainty in budget estimates as site managers may find it difficult to determine what items *should* be funded through GPR dollars and what items should be funded through PRO.

In the opinion of many Division staff with whom we spoke, the state does not provide enough revenue to finance the responsibilities it charges the Society with upholding. The prevailing view is that the state is increasingly laying the burden of funding responsibilities on the Historical Society. The Historical Society in turn must rely on program revenues to cover an increasingly large portion of its costs.

To help reconcile this disparity and to distinguish the funding responsibilities the Historical Society may have as a state agency from those it may have as a private organization, we applied the economic theory of *public goods* to the Historic Site Division's budget.

### *The Concept of Public Goods*

The theory is that the market will not be able to provide an efficient level of any good characterized as "public." Elements of the Historical Society's mission that are characterized as "public" cannot be efficiently funded using the private market. Thus, meeting the full costs of providing these "public" functions requires providing a *minimum* GPR funding level.

A good or service can be characterized as "public" if its consumption by one person does not exclude others from consuming it. Economists refer to this phenomenon as *nonexcludibility* meaning it is not possible or economically feasible to exclude someone from consuming a good or service once provided even if they do not pay for it.

Furthermore, public goods are *nonrival*. This means that once a good or service is provided, the marginal social cost of the good for an additional consumer is zero. In other words, the consumption of a public good by an additional person will not reduce the benefit of the good to others. To achieve an efficient level of provision of such a good, its price should be set at zero. With a zero price, however, private firms would have no incentive to provide an efficient amount of the good or service.

A lighthouse is a good example of a public good. When a lighthouse operates, it signals the danger from rocks to all boats in the area, regardless of whether the boat operators have paid for the lighthouse service. It is impossible to exclude the non-paying boat operator from benefiting from the lighthouse. The lighthouse example also provides a good example of the nonrival nature of a public good, because one additional boat of the dangers of rocks generates no additional cost to the lighthouse.

The definition of a public good relates to the technical characteristics of a good or service and not whether the good is actually provided by government. Governments provide both public and private goods for a number of reasons. One of the purposes of this analysis is to isolate and categorize the Historic Site's budget into a working model of public and

private goods to help identify areas where it may be appropriate to seek further state funding.

Only in the case of a private good is it appropriate to charge a fee for the consumption or use of that good or service. Even so, many things may have characteristics of a “private” good that may also have cause for public support. One example would be a public library. Even though borrowing books from a library can certainly be characterized as a private good, governments generally provide substantial funding and subsidies to libraries in order to guarantee access by children and adults with low incomes. Other benefits may not be immediately apparent, but they include, for example, a better educated citizenry. Thus, while GPR funding should not necessarily be limited to the financing of the Historical Sites Division’s “public good” responsibilities, there is a very strong argument that all its public good responsibilities must be met by public funding.

By characterizing budget expenses as private or public goods, the Historical Society should have a more concise picture of which portions of their expenditure should be funded by the state, and which should be funded by program revenue dollars. This should allow the Society to clarify its funding responsibilities and focus on addressing a declining attendance trend and fluctuating program revenues.

Using the economic definition of a public good, we recategorized the Sites Division’s seven budget categories in the following ways:

<b>Public Goods</b>	<b>Private Goods</b>
Collections	Visitor Services
Administration	Interpretation Programs
	Museum/Souvenir Shops
	Transportation
Maintenance?	

*Reasoning for Classification*

Maintaining historic buildings and actual collections for present and future generations can be classified as “public good” functions of the Historical Society.

State statutes clearly support the classification of collections as a public good thus making it appropriate to conclude that responsibility for funding collections should fall to the state. Wisconsin Statute 44.20 and 44.02 clearly describe the Historical Society’s duties in preserving and holding in trust for the people of Wisconsin the eight historic sites, along with all collections and historic buildings. (see Appendix B). It is reasonable to assume that since the state charges the Society with the upkeep and maintenance of such collections, it should be responsible for funding the associated costs.

Collections are both nonexcludable and nonrivals. Once provided, in this case by the Historical Society, the Historical Society cannot exclude people from enjoying historic buildings without considerable cost. In addition, the viewing of historic buildings or

artifacts will not decrease their quality to others. The state views the preservation of Wisconsin history as beneficial and recognizes its responsibility to provide and fund this good.

Administrative cost relates to the management and care of collections as well as the overall management of each respective site. Salaries including fringe benefits are included under administrative cost. The state assumes administrative cost as its funding responsibility and budgets accordingly in its GPR appropriations. Although the state makes a funding decision to finance something, however, this says nothing about whether the activity in question is a “public good.” “Publicness” is a technical characteristic of a good or service and is completely independent of the actual behavior of governments.

By contrast, interpretive programs, visitor services, souvenir shops, and transportation can be technically characterized as private goods. These services require some form of payment in order to consume them and thus exclude people by fees and prices. In addition, these services exist primarily to serve visitors and are thus appropriate to categorize under the Historical Society’s private organization model. They are also rival in consumption—additional visitors generally result in additional costs.

To further explain: interpretive programs, visitor services, souvenir shop, and transportation services can all very easily exclude visitors who do not pay whereas historic buildings should not. To clarify, at Old World Wisconsin, the Historical Society can easily close the gates to consumers who do not wish to pay so that they cannot receive the interpretive services it provides. It is economically not feasible, however, for Old World Wisconsin to exclude consumers from enjoying the preservation of its historical buildings. That is, it would be very expensive for Old World Wisconsin to erect a wall around the entire site in order to exclude individuals from viewing historic buildings.

#### *Resolution of Maintenance and the Development of a Funding Model*

It is unclear from reviewing the Historical Society’s budget whether maintenance refers to specific maintenance of buildings and artifacts, which would have to be done regardless of the presence of visitors, or whether maintenance refers to upkeep of sites and is needed because of visitor usage. If maintenance costs could be identified as those necessary to maintain buildings and artifacts, then it would be appropriate to categorize them as a public good. If maintenance costs can be associated upkeep as a result of visitor usage, then it would be appropriate to categorize them as a private costs.

Since we are not familiar with the details of the maintenance budget, after consulting with the Sites Division staff, we made a number of alternative assumptions about the proportion of the maintenance budget that should be classified as “public.”

According to Historical Society budget reports, the bulk of the maintenance expenditure goes to pay limited term employee (LTE) salaries. According to staff, the majority of these positions are for custodial and upkeep of the eight historic sites. Although some

work would have to be done regardless of the presence of visitors, we made the assumption that the presence of visitors was responsible for the majority of expenditures in the maintenance category.

To clarify, although upkeep to sites such as mowing the lawn, custodial services and general maintenance must be done regardless of visitors, we assumed that the presence of visitors would prompt a need for increases in these services. For example, although it may be appropriate to cut grass at a historic site perhaps once or twice a month, it is assumed that with visitors, the site must keep a professional appearance and thus must increase the amount of times it cuts the grass to, say, once or twice a week. The same analogy can be made to other maintenance services, such as custodial. Based on this reasoning, our base assumption is that 30 percent of total budgeted maintenance expenditures should be classified as “public.”

As stated earlier, this is an arbitrary assumption on our part in order to help develop an accurate model to reflect maintenance expenditures. We recommend that the Historical Society, in conjunction with site directors, establish a more accurate reflection of maintenance by determining which aspects of it fall into the public good category and which into the private. The percentage breakdown used here is arbitrary.

### **Analysis of the Society’s Funding of Its “Public” Functions**

Table 1 displays the results of our analysis of the Historical Society’s expenditure on its public good functions. It compares these expenditures with actual GPR appropriations for the 1999–2000 fiscal year. All data were taken from the Historical Society’s July 1, 1999–June 30, 2000 budget records. Bennett Studio was excluded from our analysis since it opened only recently and has not accumulated fiscal data. Madeline Island was also excluded from our analysis because it has a large endowment that may not accurately reflect the financial situation of the Historic Sites Division.

Insert table 1 as landscape on its own

The data indicate that the state is appropriating sufficient GPR dollars to cover the costs of those functions we have characterized as public goods. According to the data, GPR dollars are sufficient to cover all expenditures that can be attributed to a public good with a surplus of approximately \$270,000. Only one site, Villa Louis, is not receiving enough GPR dollars to cover expected costs associated with the budget categories that we characterized as primarily public.

It should be noted that the calculations in table 1 are based on the assumption that 30 percent of maintenance expenditures are classified as public goods. As annual spending on maintenance is approximately one-half million dollars, classifying a larger proportion of maintenance expenditures as public goods will imply that GPR dollars are inadequate to cover the total public good expenditures of the Historic Sites Division. Our analysis indicates that approximately 90 percent of the maintenance budget must be categorized as

public good expenditures in order for the total expenditures we categorized as public goods to equal GPR appropriations. See table 2.

Insert table 2 on landscape

If we classify all maintenance expenditures of the Historical Sites Division as public goods, the data in table 3 show that GPR appropriations would be sufficient to cover 96 percent of the public good expenditures of the Division.

Insert table 3 landscape

Because maintenance expenditures are such a crucial factor in determining the adequacy of GPR funding, we recommend that the Historical Society conduct a detailed study of maintenance expenditures with the goal of determining what share of the expenditures should be categorized as public goods.

According to Historical Society staff and the their own administrative budget analyst, appropriation procedures for the Historical Society may change in the next biennium. Instead of appropriations being made on an individual site basis, one current proposal would provide lump-sum appropriations, which would give allow greater flexibility in allocating resources. Should this proposal pass, and assuming our funding model is correct, the Historical Society should be able to move funds from sites experiencing GPR surpluses to those with deficits.

Finally, keep in mind that the reported GPR expenditures and revenue may not in fact reflect an accurate picture of the amount of funds actually needed. That is, the Historical Society may be managing the revenue it receives from the state as best it can even though it may need more funds to satisfy its mission. In other words, even if there were a need for additional GPR dollars for additional expenses, these expenses would not show up in a budget report unless the Historical Society actually tried to provide these additional services. If this were to occur, a deficit would appear in the budget. It does not have the legal authority, however, to authorize expenditure above the legislature's appropriation.

According to the 1992 Legislative Audit Bureau's audit of the Society's Historic Sites Division, all eight historic sites have failed to keep their collections up to professional standards. Of the eight sites the Historical Society manages, the American Association of Museums accredits only one, Villa Louis.

This may be an indicator that the Historical Society is in fact not receiving enough money from the state to meet its funding responsibility as a state agency. We recommend that the Historical Society estimate the cost of the additional services it may need to maintain its historic sites at a nationally recognized level of excellence.

The maintenance category is really the crucial factor in our analysis of the Historical Society's budget using public and private good applications. It is the most unclear and debatable budget category that we examined. Because of this, we ran a number of

simulations to see what the effects would be of changing the percentage assumptions in this category on the overall budget.

### **Analysis of the Society's Funding of its "Private" Functions**

Table 4 compares Historical Sites Division expenditures that can be categorized as private goods, to the actual PRO revenues for the 1999–2000 fiscal years. All data were taken from the Historical Society's July 1, 1999 – June 30, 2000 budget records. Again, Bennett Studio and Madeline Island were excluded.

Insert table 4 landscape

Before going into our results, we would like to stress that our categorization reflects the technical aspects of what may be defined as a private good. There are many circumstances in which governments provide private goods. The results of this analysis by no means suggest that all expenditures categorized as private goods should be funded from PRO sources. Our analysis seeks to assess what the current fiscal status of the Historical Society is by using a public/private definition for budget categories. Circumstances and reasons for government covering some portion of what we categorize as a private good are discussed later.

The data indicate the Historical Society is facing a deficit in covering those costs categorized as private goods. According to the data, the Historical Society's program revenues account for only 75 percent of the expenditures we classified as private goods. The Historical Society is short approximately \$530,000 in revenue to cover its funding responsibilities as a private membership organization. Again, it is interesting to note that only one site, Villa Louis, is generating enough PRO dollars to cover costs associated with the Historical Society's status as a private membership organization.

Our analysis of the program revenue side of the budget issue also led to several conclusions. As before, it is crucial to point out that the funding model presented here assumes a proportional split in the cost of maintenance. Our basic assumption in the case of private goods was that 70 percent of total maintenance expenditures were in the private category. Again, alterations in this proportion model could change the outcome of results. Assuming this funding model is appropriate, each site, with the exception of one, experiences on average a 35 percent shortfall in program revenue, with Stonefield and Wade House having the biggest deficits.

According to our data, Stonefield is covering only 42 percent of expenditures assumed to be covered by PRO dollars. Wade House is covering approximately 64 percent of costs assumed to be covered by PRO dollars. Old World Wisconsin, by far the largest site and largest source of PRO dollars, is also running a deficit, however, and only covers 75 percent of costs that may be expected to be covered by PRO dollars.

It is highly unlikely that drastic changes will occur with adjustments to the maintenance expenditure model, unless the entire expenditure cost of maintenance is placed under the

private good category. We ran similar simulations to that of our GPR analysis. In this case, there was no “break even” point where maintenance cost would change a deficit to a balanced budget. The only simulation run here was to consider, as before, all maintenance costs to be assumed by the state. See table 5 for results.

Insert table 5

Even in this situation, the Historical Society is still looking at a deficit. Our numbers indicate that PRO dollars cover approximately 88 percent of expenditures characterized as a private good. Again, we would like to stress that attributing all maintenance costs to the state does not accurately define the funding responsibilities of these costs.

To help clarify and isolate specific factors that may be causing these deficits, we reworked the information shown in table 4 to reflect expenditures solely associated with the site interpretation programs. In discussion with staff, we were informed that two categories, museum/restaurant and transportation expenditures were considered stand-alone budget issues and were not taken into account when estimating biennium budgets. That is, the museum stores/restaurants, and transportation services at the respective site were budgeted and categorized more as individual mini-budgets with the expectation that the revenues generated from these services would cover expenditures.

Table 6 illustrates these findings. Table 6 includes 70 percent of maintenance cost.

The results of this focused analysis show a deficit situation that was larger than when we included all costs and expenditures for private goods. This indicates that the revenues generated by services such as museum stores/restaurant and transportation services are in excess of the costs that are associated with their operation. It is logical, therefore, to conclude that excess revenues from these services are being used to cover some of the costs associated with the site interpretation programs. The Historical Society believes that admission revenues should be adequate to cover program interpretation costs.

In addition to looking at factors in admissions that may reduce costs or increase revenues, two conclusions are immediately apparent from the analysis of this data set that may help the Historical Society address these deficit issues.

First, the Society may wish to reorganize and redefine the mission and role of its interpretation programs so that a portion of their expenditures may be reclassified as a public good. Arguments for funding could then be developed to seek a transfer in funding responsibilities to the state. This would free up program revenues to cover a greater proportion of the deficit.

There may be many good reasons for government to provide (or finance) goods that are technically “private.” Take for example, higher education. It is certainly excludable (tuition can be charged) and rival (more students add to the costs), but it is highly unlikely that a majority of people would want to argue that the state should appropriate no money for the funding of higher education.

There may be many other reasons for the state to subsidize interpretive programs and other “private goods” offered by the Historical Society. For example, public subsidies allow for lower admission fees, and these may be necessary to guarantee access to those with low incomes. To the extent that the sites provide organized programs for schoolchildren that are not fully funded by local school districts, there may be a rationale for public funding for these services. Also, the legislature may have an interest in encouraging its citizens to learn about the state’s history. Thus it may want to subsidize a visit to Old World Wisconsin, while it does not subsidize a visit to a Wisconsin Dells water park

Methods for developing an argument for more state support of “private” goods may include a systematic look at services provided by the interpretive programs. In addition, a detailed look at existing statutes may strengthen the case for shifting funding responsibility to the state.

Wisconsin statute 44.04 describes the Historical Society’s responsibility to provide educational services (see appendix B for excerpts from Wisconsin statutes). Linking this to some aspect of site interpretation programs may strengthen the Historical Society’s position when approaching the legislature. Since the Historical Society provides school tours with interpretation services, this may be a positive strategy to increase GPR dollars and help reduce deficits. In addition, many site managers believe the interpretation program is the heart of their mission to bring awareness of Wisconsin history to citizens.

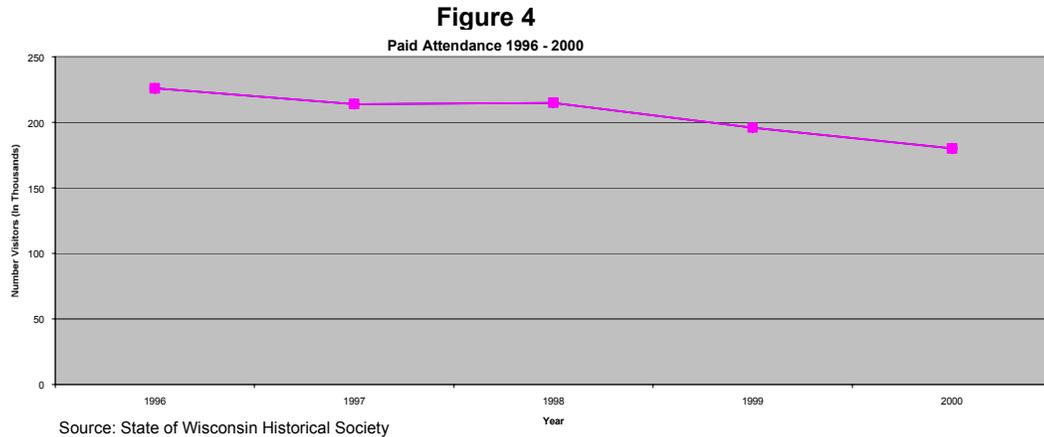
We strongly recommend that the Historical Society look into the development of a legislative strategy to help bridge ideas and foster communication. In conference with Historical Society staff, we came to understand that legislators with sites in their respective districts have a very strong interest in the Historic Sites program. Building on this, we suggest that the Historical Society begin with legislators whose districts have historic sites building strong working relationships and increasing communication.

Second, given the results of our analysis, the Historical Society may want to consider reducing spending within the constraints of existing revenue trends. The question would be which program cuts to consider.

### **Admissions**

Since admission revenues are expected to cover program interpretation expenditures, we thought it would be appropriate to extend our analysis to take a brief look at current trends.

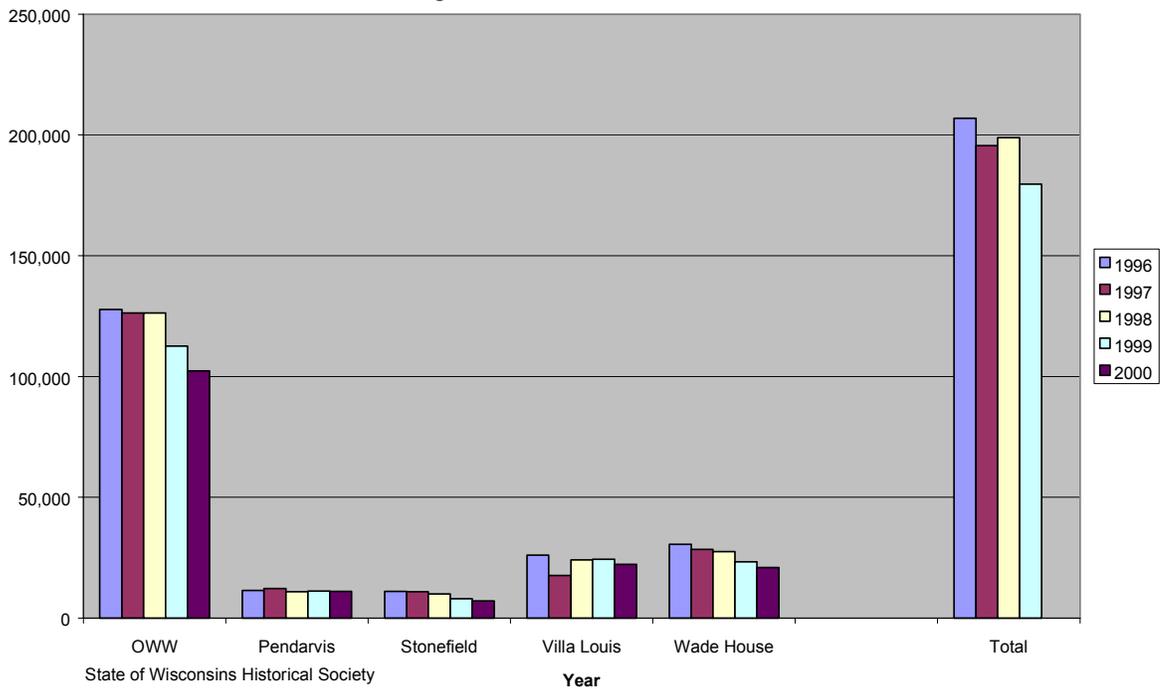
Since Historical Society staff indicated a recent declining trend in attendance, our analysis took a brief look at a period of about five years—from 1996 to 2000. Figure 4 shows a 20 percent decline in total attendance over this five-year period.



Although this figure represents an overall decline in attendance, this decline really occurs only at certain sites. Attendance has varied from site to site, and not all sites have experienced such drastic declines in attendance. Figure 5 illustrates the individual attendance trends for each respective site.

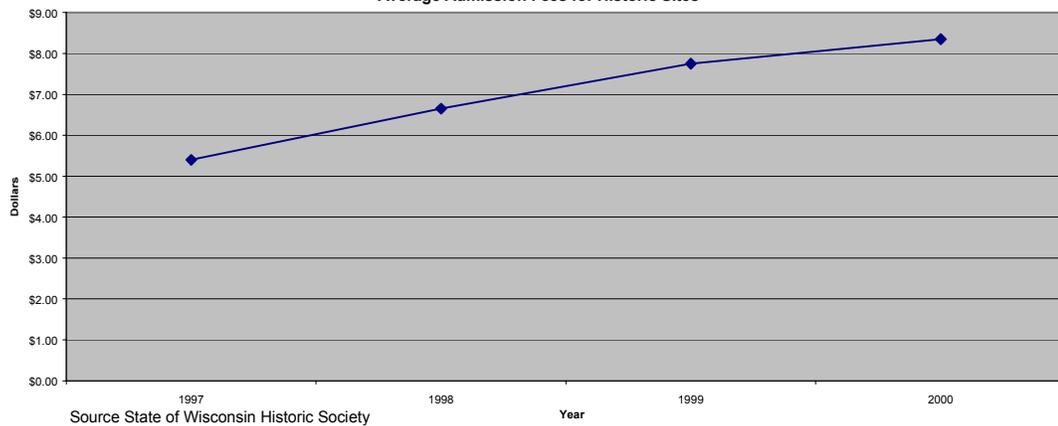
Old World Wisconsin, Stonefield, and Wade House have shown consistent declines in attendance, between 15 percent and 20 percent. These significant declines are not seen in the other sites. Although Villa Louis and Pendarvis also have experienced a decline in attendance, their attendance decline has been less noticeable with Villa Louis experiencing a 3 percent decline and Pendarvis experiencing a 1.5 percent decline.

**Figure 5**  
Average Attendance Per Individual Sites

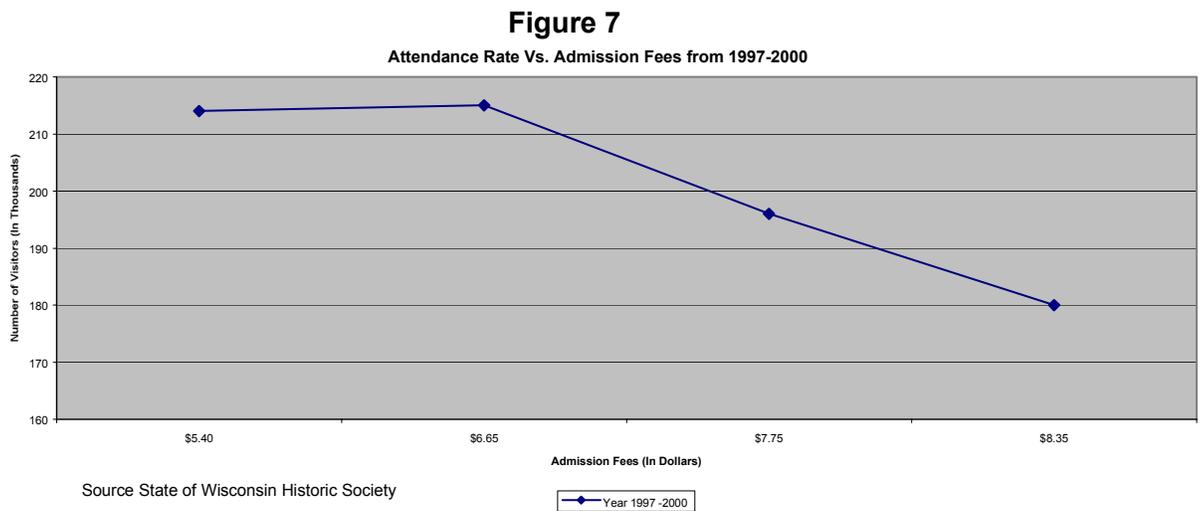


To compensate for the decrease in revenue as a result of declining admissions, the Historical Society has opted to raise admissions fees in the past. Figure 6 shows the average admission price from 1996 to 2000.

**Figure 6**  
Average Admission Fees for Historic Sites



To see if there may be a relationship between price increase and attendance decline, we combined the data from figures 4 and 5. Figure 7 shows the attendance rate compared to the average admission fee increases from 1997 to 2000.



Although the graph would seem to indicate that there may be a relationship between lower attendance and higher admission fees, changes in attendance at historical sites can be caused by so many other factors that it is impossible to determine what, if any, role admissions fees play in explaining the declining attendance. Regardless, we recommend that the Historical Society investigate more fully the role that admission fees play in influencing the rate of attendance at historical sites.

### State Historical Societies in Minnesota and Ohio

It may be useful to see if there are lessons to be learned from other states. In this section of the report, we look briefly at the operation of historical sites in two other states, Ohio and Minnesota. Ohio uses a flat fee for admission pricing while Minnesota uses a rule of thumb to determine its pricing scheme. Ohio is experiencing the same decline in attendance that Wisconsin is facing. To increase revenue streams, Ohio is considering replacing its flat fee admission pricing with parking fees.

The theory behind changing from admission fees to parking fees is to capture more dollars from visitors who come to see the sites but who do not wish to pay for interpretive services or who attend sites without such services. Ohio currently operates 62 sites, 30 of which offer interpretive services. This practice may warrant some consideration on Wisconsin's part in that a parking fee may capture additional revenue from visitors who are there just to see buildings or geography. Perhaps a combination of a reduced admission price and a parking fee may help increase the revenue stream.

Minnesota uses a rule of thumb to set its price. Like Wisconsin, Minnesota has been increasing prices in response to decreasing revenues, but it has set a threshold at the price for current admission to a movie.

Since the admission prices in Wisconsin already are near or exceed the prices of a movie ticket, it may be wise to reevaluate sites' potential to compete against other entertainment

resources. Regardless, even if the Historical Society changes its admission model, admission pricing accounts for one factor that may contribute to deficits. Understanding that other factors may be influencing attendance rates and revenue streams, Minnesota has begun to investigate these other factors.

To help stabilize fluctuating revenue streams, Minnesota has looked into diversifying their revenue stream, cutting program costs, increasing awareness, and promoting historic sites in order to get away from relying so much on admission revenues. More attention is being paid to looking for sources of private funding.

To cut costs, Minnesota operates interpretations programs at only 16 of its 32 sites. To further control the costs at these sites, Minnesota uses what is called “Friends of the Society” to manage six of its sites. This managing mechanism consists of volunteers and costs Minnesota nothing in terms of its budget except for expenditures related to preservation of sites.

The “Friends of the Society” managing mechanism not only helps pay administrative salaries but also contributes to community awareness of historic sites. This helps boost promotion of Minnesota historic sites and is credited by employees as an influential factor in attracting visitors.

Wisconsin may wish to further investigate the feasibility of adopting similar volunteer management systems. Furthermore, there may be some merit in investigating options to make certain portions of Wisconsin’s sites self-interpreted.

Minnesota also centralizes its collections care into one division. Wisconsin may wish to look more closely at this operation category. Wisconsin currently leaves collections responsibilities to individual sites. Consolidating collections into one division may alleviate some cost by reducing the need for collections care specialists at each site.

In addition, Ohio views community collaboration at smaller sites crucial to the success of the site. Ohio’s Historical Society staff stressed cooperative relationships with scouting organizations, local businesses, and educators. In an effort to gauge public opinion about what types of collaboration will be successful, we recommend a detailed audience research study.

## **Conclusions and Recommendations**

Due to recent trends in declining attendance, increasing seasonal labor costs and a fluctuating revenue stream, the State of Wisconsin’s Historical Society’s Historic Sites Division commissioned this study in order to address concerns of possible future deficits. To address Society concerns, this analysis separated budget category expenses into “public” and “private” goods in order to help clarify the funding responsibilities the Society has as both a state agency and a private membership organization.

In addition, this analysis factored in a brief analysis of attendance and how this may relate to the overall fiscal situation of the Historic Sites Divisions site interpretation program. A follow analysis involved looking at two nearby states, Minnesota and Ohio to see whether or not the Society could benefit from other organizations operational categories.

### *Findings*

Our analysis found that the state may be providing sufficient funds to cover costs, which we categorized as a public good. The main budget category that left most doubt as to the proper funding responsibility was maintenance. As a result of discussions with Historical Society staff, we created a working model to help differentiate costs that may be associated with primarily public goods and those that may be associated with primarily private goods. Following this model resulted in a slight surplus in GPR dollars. In further simulations, we determined that at least 90 percent of maintenance costs must be classified as public goods in order to bring the budget into balance.

If all maintenance expenditures are considered to be public goods and are financed by the state, our analysis indicated a 4 percent shortfall. As mentioned earlier however, we do not feel that it is appropriate have the state fund all maintenance cost.

We then investigated whether program revenues were adequate to cover those costs we categorized as private goods. Using the percentage split in maintenance costs we found the Historical Society with deficit of approximately \$530,000. In our subsequent simulation, in which we removed maintenance as a private cost, our analysis still indicated a deficit of approximately \$209,000.

Concluding that a deficit was likely no matter how maintenance costs were viewed, we decided to look at attendance to determine whether declining trends had any effect on program revenue. Our initial analysis showed that admissions fees were set drastically below the levels needed to cover costs associated with site interpretations. To see if there was a relationship, we compared declining attendance rates to price fee increases.

Because of a lack of data, however, we concluded that although admission fees may have had an impact on attendance it was unclear as to how large the effect was.

We then considered two other states, Minnesota and Ohio, to see whether Wisconsin might benefit from adopting or modifying the operational categories of these states.

A number of mechanisms are used by the other states to cut program costs and increase revenues. These are as follows:

- Centralize collections care
- Develop volunteer management network
- Look for alternative funding sources, including private donations
- Investigate possibility of parking fees

- Increase community collaboration and promotion

### *Special Cases: Villa Louis and Stonefield Village*

Finally, we would like to point out that Villa Louis runs a GPR deficit under all of our simulations. It also shows a PRO surplus no matter how we integrate maintenance costs. In addition, it has the lowest percentage in declining attendance. (Preceding its rededication in 1998, attendance had been declining, but since then, the site has had the most consistent attendance rate of any historic site in Wisconsin.) Villa Louis is also the only site accredited by the American Association for Museums.

Conversely, Stonefield Village suffers from both a GPR and PRO deficit and is experiencing one of the greatest decreases in attendance. We recommend additional analysis of that site.

We understand that each site is unique. Regardless, we believe the analysis provided in this report may prove useful to the Historical Society when they discussing operation funding categories for each site. In the case of Villa Louis, there may be reason to pursue additional state funding.

Similarly, this analysis offers some evidence that further attention may need to be paid to Stonefield Village to determine what factors may be contributing to its deficit problems. Certainly, arguments for additional state funding may be discussed but more important, other factors should also be considered.

### *Summary of Recommendations*

1. Reevaluate the maintenance budget category to help clearly define funding responsibilities and determine which maintenance expenses should be paid for by the state and which portion of maintenance costs should be paid for through program revenues. Possibly create two new budget categories, one for GPR funding and one for PRO funding.
2. Estimate cost of additional expenditures that may be needed to make historic sites eligible to be accredited by the American Association of Museums.
3. Consider redefining interpretive programs to develop an argument for state funding. Review state statutes and charge.
4. Develop a legislative strategy.
5. Investigate factors that may be contributing to attendance decline.
6. Use other states to help develop a pricing mechanism to reflect visitor willingness to pay accurately.
7. Look at other states for ideas in cost savings
  - Centralization of collections care
  - Development of management volunteer network
  - Alternative funding sources
  - Collaboration opportunities
  - Awareness and promotion opportunities

## Appendix A

<b>Site</b>	<b>Location</b>	<b>Description</b>
<b>First Capitol</b>	Belmont	First Capitol consists of simple frame buildings in which early territorial legislators met in the fall and winter of 1836. Among other tasks, these legislators wrote laws and named Madison as the capitol city of Wisconsin.
<b>H.H. Bennett Studio</b>	Wisconsin Dells	The Division of Historic Sites opened the H.H. Bennett Studio to the public in June 2000. H.H. Bennett Studio was the studio of Henry Hamilton Bennett, who was known for his pictures of the Wisconsin Dells and the Ho-Chunk tribe. Further information about the Wisconsin Dells and the Ho-Chunk are also available at the site.
<b>Madeline Island Historical Museum</b>	LaPointe	This historical museum is located on Madeline Island, one of the Apostle Islands in Lake Superior. The museum contains many artifacts representing the lives of Madeline Island residents throughout history, including the Ojibwe tribe, fur traders, missionaries, loggers, and fishermen. The site also includes the Casper Center, a modern gallery.
<b>Old World Wisconsin</b>	Eagle	Old World Wisconsin, a recreation of mid-1800's farm and village life, is the largest of all the sites, showcasing 53 historic buildings from around Wisconsin. The site portrays various nationalities of immigrants, such as the German, Polish, Norwegian, Finnish, and African-Americans.
<b>Pendarvis</b>	Mineral Point	Cornish miners heard of a lead strike in Wisconsin in the 1830's and 1840's and came to the state, where they built the limestone structures that make up Pendarvis. Two local people preserved the site, which includes several buildings, mining tools, and an old mine, until 1970 when the Division of Historic Sites began site operation.
<b>Stonefield Village</b>	Cassville	This former estate of Nelson Dewey, Wisconsin's first governor, depicts Wisconsin rural life in the late 1800's. The site is made up of Dewey's reconstructed home, a rural farming village, some original outbuildings, and a sheep barn that is now the State Agricultural Museum.
<b>Villa Louis</b>	Prairie du Chien	The Victorian mansion and estate that make up Villa Louis belonged to the wealthy family Dousman fur traders. The original house is still standing, complete with its own furnishings and décor. The site now includes a Fur Trade Museum.
<b>Wade House and Wesley Jung Carriage Museum</b>	Greenbush	In the 1850's, the big, beautiful Wade House served as a stagecoach inn for the many pioneers traveling across the state of Wisconsin. The Wesley Jung Carriage Museum features a large selection of carriages and wagons used in different periods of Wisconsin history.

## **Appendix B**

### **Excerpts from Wisconsin Statutes**

#### **44.02 Historical society; duties. The historical society shall:**

- (1) Serve as trustee of the state in the preservation and care of all records, both printed and written, and all articles and other materials of historic interest and significance placed in its custody, and interest itself constructively as the agent of the state in the preservation and care of all similar materials wherever they may be.
- (2) Collect by gift, exchange or purchase books, periodicals, pamphlets, records, tracts, manuscripts, maps, charts and other papers, artifacts, relics, paintings, photographs and other materials illustrative of the history of this state in particular and of the West generally.

#### **44.4 School services.**

- (1) The historical society, as part of its program as an educational institution, shall offer to the schools and teachers in this state all of the following:
  - a. Materials as the society shall prepare or make available to facilitate instruction in the history and civil government of Wisconsin, including curricula, lesson plans, classroom projects, facsimiles of historical materials and other instructional materials for the teaching of state and local history

#### **44.2 Historic Sites.**

- (1) The historical society shall operate and maintain the historic sites known as Stonefiled Village, Pendarvis, Villa Louis, Old Wade House, Madeline Island, Old World Wisconsin, H.H. Bennett Studios and, if the First Capitol state park has been transferred to the historical society under 1993 Wisconsin Act 16, section 9142 (1e), First Capitol

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## **Acknowledgments**

We gratefully acknowledge Professor Andrew Reschovsky for his guidance throughout the writing of this analysis. We would also like to thank Kirstin Nelson, John Hackett, Doug Smalley, and Jim Temmer for their willingness to share with us their knowledge of historic site operations.

We are especially grateful to Rich Albertoni and others in the Division of Historic Sites for their patience, guidance, and assistance.

Lastly, we would like to give a special thanks to Alice Honeywell, Terry Shelton, and Craig Allen for their time and effort on our behalf.