

June 15, 2015

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Staff report and recommendation regarding KidsQuest Children's Museum funding request.

STAFF CONTACTS

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POLICY ISSUE

Prior Council policy direction

This memo provides an analysis of the application of Council's investment principles to the proposed funding agreement with KidsQuest for Bellevue's Children's Museum.

DIRECTION NEEDED FROM COUNCIL

- X Action
- X Discussion
- X Information

BACKGROUND/ANALYSIS

This presentation provides an update regarding the status of discussions with KidsQuest for the funds earmarked by Council in the 2015-2016 Budget process for community partnerships. Staff seeks Council feedback on the terms of the proposed funding agreement and direction on whether to bring the agreement back for Council approval.

As you will recall, KidsQuest requested funds from the City during the discussions regarding the 2015-2016 Budget process. Council created a budget line item referred to as "Community Partnerships" and allocated funds to that purpose. Although no guidelines were provided to guide staff regarding expenditure of these funds, Council previously adopted a set of guiding principles for distribution of funds set aside for cultural arts organizations:

Principles to guide investment:

- Must have a sustainable long-term financial model, including strong private sector financial commitment,
- Must clearly define public benefit to be received in exchange for investment (Could take the form of ownership interest in an asset, scholarships, public access to the facility at low or no cost to low income and disabled persons, or...),
- Should provide for City involvement in financial oversight,
- Must be an investment in a facility, or for support of the operation of the facility. Cannot fund fund-raising activities.

Following the adoption of these principles in 2006, Council considered a request by KidsQuest, for funding of \$500,000, during the 2007-2008 Biennial Budget period and entered into funding agreements for that amount. Since KidsQuest has been considered by the City to be a type of cultural arts organization, staff have analyzed this latest funding request for up to \$2.0 million under the funding principles established in 2006.

Staff met with representatives of KidsQuest to discuss both their purpose in seeking funds and their ability to meet the Council's principles. The purpose of the KidsQuest request is to aid in capital improvements to convert the Rosalie Whyel Doll Museum property to use as a children's museum. KidsQuest has executed a Purchase and Sale Agreement with Whyel and is in the permitting process with the City for this project, which will include construction of a number of new exhibits that focus upon the unique cultural and natural history of this region.

Application of Investment Principles to KidsQuest

Financial sustainability

The City has been provided access to financial information from KidsQuest in order to assess whether they meet the principle of long-term financial sustainability. In addition, staff have discussed with them both their financial situation and their long-term plans for expanding their program and increasing their funding sources. Staff have concluded that KidsQuest does have a sustainable financial model at this time.

Public Benefit

Public benefit can be seen to have two components. First, there must be a public purpose to the mission of the organization. State law designates museums as one type of facility that is considered to have a public purpose. The KidsQuest Museum is open to the public for a nominal fee on a daily basis, with free access one day a week. Second, there must be a benefit accruing to the public in exchange for the funds provided. This is because the state constitution prohibits gifts or loans of public funds except to aid the poor or the infirm. KidsQuest currently provides scholarships for low income clients. In addition, KidsQuest has a program specifically designed for disabled children which they provide on an ongoing basis. As noted above, KidsQuest has proposed to use the funding investment from the City for its capital project of relocating their programming to the former doll museum building, including remodeling and expanding the structure and creating new exhibits. KidsQuest has offered the City a security interest in the new exhibits. Additionally, KidsQuest has agreed to include at least \$100,000 worth of programming and access for low income or disabled children and their families, attributable to the City's investment, on an annual basis for a twenty-year period.

City Involvement in Oversight

KidsQuest's prior and existing funding agreements with the City require ongoing access to their financial records be provided to the City, and the Museum is prepared to continue that obligation in a new funding agreement. They are also prepared to work directly with the City's Finance Department to ensure that the City's investment in their programming and facilities is appropriately managed. In meetings with KidsQuest, staff have made suggestions regarding revisions to their internal financial controls, which have been well received. Staff have informed KidsQuest that the City will require, on a monthly basis, copies of their Balance Sheets, Statement of Cash Flows, and Profit & Loss Statement (Budget versus Actual). On an annual basis they will be required to provide an Independent Auditor's Report, an Independent Auditor's Management Letter, a copy of their IRS Form 990 (Return of Organization Exempt from Tax) and updated three-year projections.

No Investment in Fund-Raising

As noted above, KidsQuest proposes to use the funds for the capital improvement project; the funds will be secured by City ownership in physical assets. By freeing up KidsQuest from some of the costs of the capital improvements, the Museum will in turn dedicate at least \$100,000 annually for a period of 20 years to programming for disabled children and to subsidize access for low income children and their families through free and reduced price admissions and scholarships.

PROPOSED FUNDING AGREEMENT

Staff have prepared a draft funding agreement for Council's review and comment which is provided with this agenda memo. The agreement as drafted has been reviewed by KidsQuest and its terms are acceptable to the Museum. The terms of the proposed agreement are similar to the terms of the prior agreements that the City has had with KidsQuest, other than reflecting the current proposal to provide public benefit commensurate with this significantly larger City investment. Also, this agreement would supersede and replace the current funding agreement that is not due to expire until late in 2016.

ALTERNATIVES

At this time staff seeks Council direction on the KidsQuest funding request. The alternatives are:

- Direct staff to finalize an Agreement with KidsQuest for \$2.0 million in funding for reimbursement of capital costs to be scheduled for Council consideration in July.
- Do not direct staff to finalize an Agreement with KidsQuest for \$2.0 million funding for reimbursement of capital costs and provide alternative direction to staff.

RECOMMENDATION

Option 1.

ATTACHMENTS

Draft Funding Agreement