

January 19, 2016

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Staff report and draft proposed funding agreement regarding Music Works Northwest's request for funding of a capital project.

STAFF CONTACTS

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POLICY ISSUE

This memo provides an analysis of the application of Council's investment principles and a draft proposed funding agreement for Music Works Northwest.

DIRECTION NEEDED FROM COUNCIL

- ☐ Action
- ☒ Discussion
- ☒ Information

BACKGROUND/ANALYSIS

This presentation provides information regarding the funding request received from Music Works Northwest for \$75,000 as a City investment in the music school's capital project.

Background

As you will recall, Music Works Northwest requested funds from the City during the final Study Session regarding the 2015-16 budget process but Council did not, at that time, give direction to set aside any funds for that request. However as part of the mid-biennial budget process in late 2015, Council specifically earmarked \$75,000 for a potential Community Partnership with Music Works.

Council first created the Community Partnerships Project (CIP Plan No. P-AD-99) in 2014 within the 2015-2021 Capital Investment Program adopted budget and earmarked monies at that time for City investments in KidsQuest Children's Museum and Bellevue Boys and Girls Club capital projects. Although no guidelines were provided to guide staff regarding expenditure of the Community Partnership Project, 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)
- 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.

The funding agreements that have now been approved by Council for KidsQuest and the Boys and Girls Club have been modelled upon these investment principles with Council's acquiescence.

We have met with representatives of Music Works Northwest to discuss both their purpose in seeking funds and their ability to meet the Council's principles. The purpose of the Music Works request is to aid capital improvements converting newly leased storefront space to performance and practice facilities. Music Works has completed the first phase of these renovations and is in the design and fundraising process with potential donors and partners for the next phase of this project.

Application of Investment Principles to Music Works Northwest (MWNW)

Financial sustainability

We have been provided access to financial information from MWNW in order to assess whether they meet the principle of long-term financial sustainability. In addition, we have visited the newly leased facility and discussed with MWNW staff regarding the organization's operations, proposed capital improvements to the facility, financial conditions and long-term plans to increase funding towards financial sustainability. Due to budget constraints, an independent financial audit of MWNW is conducted every two years. We have reviewed the audited financial statements for the fiscal year ending September 30, 2012. MWNW has received an unqualified (clean) audit opinion without Notice of Findings and Recommendations. The independent Accountants have not assessed MWNW's internal controls and as such did not express an opinion on the effectiveness of the entity's internal control. Based on the available financial data reviewed, we have concluded that MWNW meets the financial sustainability principle for funding from the City.

Public Benefit

Public benefit can be seen to have two components. First, there must be a public purpose to the mission of the organization. Performances by students and faculty of Music Works are free and open to the public. 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. Music Works currently provides scholarships for low

income clients. In addition, Music Works has programming specifically designed for disabled children and adults which they provide on an ongoing basis. As noted above, Music Works has proposed to use the funding investment from the City for its capital project required as a result of having been displaced from their prior rented space. Music Works has offered the City a security interest in certain musical instruments and equipment in the form of chattel liens. Additionally, Music Works has committed to continuing its programming and access for low income children and disabled children and adults attributable to the City's investment for a 10 year period.

City Involvement in Oversight

Consistent with the City's other funding agreements these investments require ongoing access to an organization's financial records be provided to Bellevue. Music Works is prepared to comply with 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. We have informed Music Works 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, Music Works proposes to use the funds for the capital improvement project and will be secured by City chattel liens on physical assets. By freeing up Music Works from some of the costs of the capital improvements, the music school will in turn be able to dedicate at least \$7,500 annually for a period of 10 years to programming for disabled children and adults and to subsidize access for low income persons through free and reduced price scholarships. In addition, Music Works plans to continue offering the public free admission to student concerts in a new performance space that has been made available to the school by a third party.

PROPOSED FUNDING AGREEMENT

We 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 Music Works and its terms are acceptable to the music school. The terms of the proposed agreement are similar to the terms of the prior agreements that we have had with KidsQuest, Bellevue Arts Museum and PACE.

ALTERNATIVES

At this time we are seeking Council direction on the Music Works funding request. The alternatives are:

- Direct staff to finalize an Agreement for \$75,000 funding for reimbursement of capital costs with Music Works to bring forward for Council approval.
- Do not direct staff to finalize an Agreement for \$75,000 funding for reimbursement of capital costs with Music Works and provide alternative direction to staff.

RECOMMENDATION

Direct staff to finalize an Agreement for \$75,000 funding for reimbursement of capital costs with Music Works to bring forward for Council approval.

ATTACHMENT(S)

Draft Funding Agreement