

July 23, 2018

## **CITY COUNCIL STUDY SESSION ITEM**

### **SUBJECT**

Presentation of results of staff review and analysis of proposals from cultural arts organizations for funding from the Arts and Culture Fund (CIP Plan No. G-112).

### **STAFF CONTACTS**

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### **POLICY ISSUES**

In order to provide Council with information to determine whether these cultural arts organizations qualify for the 2018 Cultural Arts CIP, staff have asked each group to demonstrate that it is able to meet the Council's investment principles. This memo provides the results of those consultations, including some analysis and application of the principles to Pacific Northwest Ballet (PNB), KidsQuest Children's Museum ("KidsQuest") and Bellevue Cultural Arts Museum (BAM). Given the fact that the overall requests for funding exceed the amount reserved in the CIP and would leave no monies for future requests from other organizations during the remainder of the CIP life-cycle, Council will have choices to make between competing needs.

These funding requests are supported by the following adopted City policies in the Comprehensive Plan and the Cultural Compass, the City's adopted cultural plan, that support nonprofit arts organizations and public investment in private cultural facilities.

Comprehensive Plan:

ED-14. Recognize the economic development benefits of city and private sector investments in urban amenities like arts and culture, open space and recreational facilities, and high quality urban design. Strengthen the city's assets in these areas as an explicit component of the city's economic development strategy.

PA-8. Develop partnerships with other public agencies and the private sector to provide parks, open space, and cultural and recreation facilities in the city

PA-11. Encourage privately funded recreational and cultural facilities throughout the city, especially in major employment centers.

PA-24. Collaborate with school districts and private and non-profit providers to deliver a coordinated array of recreation, athletic instruction, arts, gathering spaces and community services.

UD-15. Support and encourage the development of a wide array of cultural facilities throughout the city and the Eastside through local and regional strategies.

UD-19. Support artists and arts groups working in the community through city programs and private partnerships.

UD-20. Support and encourage the development of affordable space for artists and arts groups to practice, create, teach, perform, and present their art.

Cultural Compass:

GOAL 1. Strengthen Bellevue's arts and cultural organizations and opportunities for artists, both professional and avocational.

GOAL 5. Develop a mix of flexibly designed, quality visual and performing arts spaces to serve Bellevue and Eastside organizations, artists, and residents.

GOAL 7. Develop a mix of stable and sustainable public and private sector funding and support mechanisms to strengthen Bellevue's arts and cultural sector.

### **DIRECTION NEEDED FROM COUNCIL**

**ACTION**



**DIRECTION**



**INFORMATION ONLY**



Staff seek direction on whether to enter into negotiations for funding agreements with each of the three cultural arts organizations and if so, upon what terms.

### **BACKGROUND/ANALYSIS**

As early as 2004, Council had the vision for Bellevue to be the cultural hub of the eastside. Council worked with the Arts Commission to develop and adopt the Cultural Compass, Bellevue's cultural plan. The plan set out to develop Bellevue's cultural sector so that it reached adulthood by 2015, emphasizing strengthening arts and cultural organizations, developing a mix of cultural facilities, and generating a mix of stable and sustainable public and private funding mechanisms. Council reaffirmed this vision in 2014 with their update Council Vision and recognizes the role of culture in making "great places where you want to be" in Bellevue. Council's vision focuses City efforts on "supporting cultural strengths including arts, heritage, and culture," in addition to parks, recreation, and community events.

As you will recall, these arts organizations requested funds from the City during the 2017-2018 Mid-biennial Budget process in late 2017. In response to those requests Council established the Arts and Culture Fund (CIP Plan No. G-112), funded with \$200,000 per year, for a total of \$1 million and directed staff to evaluate the requests from these organizations and return to Council with those evaluations.

Previously, in 2007 Council adopted a set of guiding principles for distribution of \$4.5 million set aside as an earmark for cultural arts. These principles have been used since that time to guide Council's investments in cultural arts and community partnerships and provide as follows:

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 (for example, 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; and
- Must be an investment in a facility, or for support of the operation of the facility. Cannot

fund fund-raising activities.

Since 2007 the City has entered into several funding agreements consistent with the funding principles—two agreements with Performing Arts Center Eastside, one agreement each with Bellevue Boys and Girls Club and MusicWorks Northwest, and two agreements with KidsQuest and BAM, who are now seeking additional funds primarily for capital projects from the Arts and Culture Fund (CIP Plan No. G-112).

The requests made during the 2017-2018 Mid-biennial budget process were as follows:

PNB	\$500,000	(\$100,000/year for five years)
KidsQuest	\$500,000	(\$250,000/year for two years)
BAM	<u>\$100,000</u>	
TOTAL:	\$1,100,000	

Since that time, however, BAM has increased its overall request to \$300,000 (\$100,000/year for three years). The current requests for CIP funds of \$1.3 million not only exceed the funds currently earmarked for this five-year CIP, but also exceed the planned annual distribution of \$200,000.

## **PNB**

The purpose of the PNB request is to seek reimbursement for capital improvements expended as a result of the ballet school being required to relocate to facilitate the Eastlink Light Rail project. Although Sound Transit did pay relocation costs to PNB for this project, the organization took the opportunity to expand and upgrade its teaching and performance spaces and include additional meeting rooms in the new location. As a result, the cost of the new facility was greater than what Sound Transit was obligated to pay for the relocation. PNB engaged in a fund-raising campaign to close the gap—the funds requested from the City’s Cultural Arts CIP will help to retire that debt.

## **Application of Investment Principles to PNB**

### *Financial Sustainability*

Long-term financial sustainability is the ability for the non-profit to maintaining the ability to be financially agile and build capacity over the long term. Financial capacity consists of resources that give the organization the ability to seize opportunities and react to unexpected threats while maintaining general operations of the organization. The goal of financial sustainability for nonprofits is to maintain or expand services within the organization while developing resilience to occasional economic shocks in the short term (e.g., short-term loss of program funds, variations in donations). Balancing financial sustainability with the organizations strategic social mission of providing quality programing over time is a challenge. Council has identified as one element of this principle a showing of strong private sector financial commitments.

Staff have been provided access to financial information from PNB in order to assess whether they meet the principle of long-term financial sustainability. PNB is a financially healthy organization. The organization has established an endowment fund for long-term sustainability. While PNB has an open line of credit, it is accessed only periodically such as during the recession and when the construction of the new Bellevue dance school was underway, and currently carries no outstanding balance. Their business model provides 75 percent of their income from earned sources, with robust private sector financial commitments.

### *Public Benefit*

Public benefit can be seen to have two components. First, there must be a public purpose to the mission of the organization.

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. PNB proposes to offer public benefit through a variety of programming which aims to provide opportunities to participate in dance and movement instruction for underserved communities including persons of color, disabled and senior populations. These programs will include scholarships and reduced fees for participation. Additionally, the school plans to offer its instruction space to other non-profit cultural arts organizations at significantly reduced hourly rates so that the students of those organizations can receive instruction and practice their craft in high-quality facilities designed for performing arts. Finally, PNB also plans to make an annual event of participation in the Phantom Lake School Discover Dance Family Day providing transportation to ensure public access to the program.

### *City Involvement in Financial Oversight*

The City has had experience now with several years of administering funding agreements with cultural arts organizations. Staff have expressed to PNB that the City anticipates its involvement in financial oversight of PNB's Bellevue dance school, during the lifetime of any funding agreement entered into between the City and the ballet, will be substantially similar to that provided in ongoing agreements with other groups. That oversight would involve:

- Access to their financial records on demand by the City;
- Direct work with the City's Finance department to ensure that the City's investment in their programming and facilities is appropriately managed including interactive sessions regarding revisions to internal financial controls where appropriate;
- Provision on a monthly basis copies of Balance Sheets, Statement of Cash Flows and Profit & Loss Statement (Budget versus Actual); and
- Provision on an annual basis 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 use of City Investment for Fund-Raising*

As noted above, the purpose of the funding request from PNB is to seek reimbursement for costs associated with their capital project of relocating their dance facility in Bellevue. The City's investment would free up funds that would otherwise be used to retire this debt to be applied to uses that provide greater public benefit, such as free and reduced tuition for low income and disabled students and other programs designed to bring this art form into the lives of more of Bellevue's citizens. PNB clearly understands that the City's funds are not to be used to leverage additional fund-raising efforts and this is a standard requirement of all of the City's funding agreements.

### **KidsQuest**

The purpose of the KidsQuest request is to seek additional reimbursement for capital improvements involved in relocating their facilities from leased space located in Factoria Mall to a larger facility closer to downtown Bellevue, which they are purchasing on contract from the prior owner of the Rosalie Whyel Doll Museum. The new facility opened in January 2017 with double the exhibit space and an increase of 30 percent in programming. Costs of the project were higher than anticipated and greater than funds raised prior to commencement of construction.

## **Application of Investment Principles to KidsQuest**

### *Financial Sustainability*

Staff have been provided access to financial information from KidsQuest in order to assess whether they meet the principle of long-term financial sustainability. KidsQuest has had an improving financial picture in its first year after completing the capital project and operating in its new space, including a posting of net income in the first quarter of 2018 that exceeds that of all of 2017. The organization continues to carry some significant debt associated with the capital project and while it has a substantial array of private donors, the overwhelming majority of that financial support (over 70 percent) comes from a single source. The organization has shown recognition of a need to diversify its donor base and take steps to address the debt from the capital projects and has outlined plans to accomplish these objectives. The City's proposed investment is one element of the plan to bring down that outstanding debt.

### *Public Benefit*

As noted above, public benefit can be seen to have two components, the first of which is 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. KidsQuest's mission is to be accessible to the entire community as an integral and unique resource for families in the Bellevue community and beyond.

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 is a participant in the Museums for All program which is designed to ensure equitable inclusion by providing free and low cost admission to on-site museum exhibits and classes. Museums for All is an initiative of the Institute of Museum and Library Services (IMLS), administered by the Association of Children's Museums (ACM). Since its inception in 2014, the Museums for All program has facilitated more than 514,000 museum visits nationwide for low-income community members with admission fees ranging from free to \$3 for families presenting an EBT card, CHIP, Provider One, or WIC card. There are currently 190 museums participating in this initiative to encourage families of all backgrounds to visit museums regularly, develop new interests and skills, enrich social connections, and build lifelong museum habits. In 2017, nearly 20,000 visitors took part in Museums for All through KidsQuest's community access program with estimated participation increasing by 30 percent in 2018.

### *City Involvement in Oversight*

Consistent with the terms of the ongoing funding agreement between the City and KidsQuest, the City would remain involved in financial oversight in the manner described above relative to PNB.

### *No Investment in Fund-Raising*

As noted above, KidsQuest proposes to use the City's funds essentially to retire debt on its recently completed capital project. This will permit KidsQuest to continue to carry out its mission under the Museums for All program focusing on bringing underserved populations access to this resource.

## **Bellevue Arts Museum**

The purpose of the BAM request is two-fold: some of the funds would pay for re-purposing the ground floor of the Museum as a public space where no fee would be charged for access to the programming provided in that area. The remainder of the funds are proposed to be used for funding of ongoing programming. The Museum sees a City funding investment as an opportunity to help realize the organizations articulated value of "establishing an organizational culture of financial responsibility,

aimed at providing an enduring platform for our audience to connect with artists and makers and their craft.”

## **Application of Funding Principles to Bellevue Arts Museum**

### *Financial Sustainability*

Staff have been provided access to financial information from BAM in order to assess whether they meet the principle of long-term financial sustainability. The organization has turned its financial situation around since the 2016 audit. BAM has showed improvement since the hiring of their executive director over a year ago. BAM’s quarterly net income has been steadily increasing. This is on track to end 2018 above the positive net income of \$760,000 reported in 2017. The first quarter of 2018 demonstrates a slight increase to cash and a slight decrease to liabilities, both being positive trends.

BAM is burdened with high level short-term liabilities and the ratio of current assets to current liability was .61 in 2017. To address this and other challenges, BAM has launched a major campaign in late 2017 through sale of Notes in which 100 percent of proceeds will be used to finance a loan to BAM of \$600,000. The minimum loan goal was reached in June 2018.

Lastly, BAM owns a building with a historical cost of \$21 million and recently obtained air rights (view protection and height covenant) for \$5.5 Million.

Two donors have provided challenge matches this year including \$2.0 million to support operational funding and \$2.5 million for an endowment to sustain future operations and programming. However, the financial statements do not confirm what donation amounts have been received so far.

### *Public Benefit*

As noted above, public benefit can be seen to have two components. As a museum, BAM can meet the first component of the test for whether the City’s investment can be viewed as providing a public benefit given the statutory designation of museums as serving a public purpose. BAM describes its mission as follows: “Bellevue Arts Museum provides a public forum for the community to contemplate, appreciate, and discuss visual culture. We work with audiences, artists, makers, and designers to understand our shared experience of the world.”

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. Bellevue Arts Museum has expressed an interest in initially using City funds on a capital project to “refresh” and “repurpose” the ground floor of the Museum Building into more of an open and interactive public space. Should the Council be willing to entertain investment of additional funds on an ongoing basis, BAM would then use those funds for programming specifically in its Forum space following the completion of the capital improvement project.

### *City Involvement in Oversight*

BAM currently has agreements with the City that require access to their financial records on demand, and anticipates that any new agreement with the City will reflect this obligation. They are also prepared to work directly with the City’s Finance Department to ensure that additional City investments in their programming would be appropriately managed. The Museum is prepared to provide the City with quarterly and annual documentation of its financial situation in order to meet this principle.

*No Investment in Fund-Raising*

BAM has committed that any funding received from the City will be used solely for the purpose of funding their capital improvement project and ongoing programming and not for funding-raising purposes.

**OPTIONS**

1. Provide staff with direction on specific allocations of CIP funds as between the three applicants as to amounts and timing over the life of the Arts and Culture Fund (CIP Plan No. G-112) as well as direction on any limitations or restrictions upon use of those funds to be included in draft funding agreements.
2. Do not provide staff with direction on specific allocations of CIP funds as between the three applicants as to amounts and timing over the life of the Arts and Culture Fund (CIP Plan No. G-112) and provide alternative direction.

**RECOMMENDATION**

Option 1

**ATTACHMENT(S)**

- A. Correspondence from PNB regarding proposals for Cultural Arts CIP Funding
- B. Correspondence from KidsQuest regarding proposals for Cultural Arts CIP Funding
- C. Correspondence from BAM regarding proposals for Cultural Arts CIP Funding

**AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

- A. 2007 Funding Agreement with Bellevue Arts Museum
- B. 2015-20 Funding Agreement with KidsQuest Children's Museum