



City of Seattle
City Budget Office

MEMORANDUM

Date: June 26, 2015

To: Honorable Nick Licata, Chair Finance and Cultural Committee

From: Ben Noble, Director
City Budget Office

Randy Engstrom, Director
Office of Arts and Culture

Subject: Response to 2015 Statement of Legislative Intent (SLI) 33-1-A-1

This memorandum is the response to Council Statement of Legislative Intent (SLI) 33-1-A-1 which requested the Office of Arts and Culture (Arts) work with the City Budget Office (CBO) to develop a plan for increasing the minimum balance of the operating reserve in the Arts Account to \$600,000 by January 1, 2019. Based on a review of the structure of Arts funding, review of the Resolution that created the current \$400,000 reserve, and discussion with the Arts Commission, CBO and Arts recommend not increasing the reserve to \$600,000.

The Arts Account supports all Arts programs, except those associated with the 1% for Art initiative, and is almost entirely funded by Admission Tax revenues. Based on current financial policies, Arts receives 75 percent of the total Admissions Tax that the City collects. CBO calculates Arts' budget appropriation of Admissions Tax based on the actual revenue received from two fiscal years prior. For example, the 2015 Arts Account appropriation of \$5,953,328 is 75% of the actual Admissions tax collected in 2013. This approach serves two purposes:

1. It helps prevent Arts from potentially spending more than the amount of revenue they received. If the Arts Account appropriation was the same as expected revenue for the same year, Arts may run the risk of overspending the Arts Account if revenues do not come in as planned. This could have a significant effect on artist and organizations grant contracts dependent on Arts Account funding.
2. Using prior fiscal year actual revenues as the basis for the Arts' appropriation gives the City time to plan for any decreases in Admissions Tax in advance.

In addition to a two-year delay for calculating funding levels, the Council adopted Resolution 31507 in March of 2014 to modify financial policies related to the Arts Account Subfund and create a financial reserve. The purpose was to lessen the effect of Admission Tax reductions on Arts programs. Specifically, the Resolution called for the:

1. Establishment an operating reserve of \$400,000 for the sole use of Arts;
2. Adjustment of the reserve balance annually by CPI beginning with the 2016 budget;
3. Replenishment of the fund balance within a 2 year time period if it drops below \$400,000; and,
4. Use of the reserve solely for the purposes of supporting Arts programs outlined in Seattle Municipal Code 5.40.120.

This reserve represents approximately 7% of the Arts Account Admissions Tax contribution in 2015 and 2016.

In response to SLI 33-1-A-1, the Director of Arts approached the Arts Commission for feedback on whether additional funding should be set aside to increase the reserve to \$600,000 by 2019. Their response was that it would tie up resources that could be used to enhance and expand current programming and it would not be the Commission's preferred choice for funding at this time. CBO agrees with the Arts Commission that the net effect of increasing the reserve would be a reduction in funding that could be used for programming.

Given these factors – the delayed appropriation calculation, financial policies that maintain a minimum reserve and CPI growth, and the Arts Commission's feedback on expansion of the reserve – CBO and Arts would prefer to not pursue an increase to the Arts Account Reserve at this time.

Cc:
Honorable Members of the City Council
Kirstan Arestad, Central Staff Director
Frank Video, Council Member Licata's Office
Sara Belz, Central Staff