

2013 BUDGET LEGISLATION FISCAL NOTE

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Legislation Title: AN ORDINANCE relating to the Seattle Center Department; amending Ordinance 123644 to increase and extend the term of an interfund loan to the Seattle Center Operating Fund; and ratifying and confirming certain prior acts.

Summary of the Legislation: Ordinance 123644 approved in June 2011 authorized a loan to provide Seattle Center with a positive cash flow while the Department worked to bring cash payments and cash receipts into balance. The legislation authorized a loan of up to \$3 million to the Seattle Center Operating Fund (SCF) through December 31, 2012. This legislation amends the previous legislation to increase the maximum amount of the loan to \$3,500,000 and extends the repayment period until December 31, 2017. Current economic conditions will prevent Seattle Center from bringing cash receipts into balance with cash outlays during the period of time specified in the original legislation.

Background: The SCF is a special revenue fund. Funding for approximately 65% of Seattle Center's \$34 million operating budget is generated through "earned revenues," (e.g., parking fees, concessions, ticket sales, and facility rentals). The remaining 35% of the Department's revenues comes from the General Subfund. The SCF is used to support the operation and maintenance of Seattle Center. The fund includes the Key Arena Subfund (11420) and the McCaw Hall Subfund (11430), which are segregated within the SCF in order to track the operational expenses and earnings of Key Arena and McCaw Hall, respectively.

Seattle Center has more than 75 sources of earned revenue. The largest sources are parking fees, facility rentals, programming at McCaw Hall, and sales of tickets and suites at Key Arena. Long-term facility leases are another large source of revenue (\$2,500,000 budgeted in 2012), mostly from theaters, museums and other arts groups that are collectively referred to as "resident tenants" of Seattle Center. The recent downturn in the national and local economies have had a significant impact on the expenditure of discretionary income by arts patrons and donated income from funders. Consequently, the revenue earned by these groups has also suffered. As a result, some resident tenants have been unable to pay the full amount of their contractual lease payments. This situation has resulted in Seattle Center receiving less in cash receipts than it recognizes in revenue. This negative cash position is usually temporary, but in this case, it is not certain that all expected revenues will be collected.

The Department's overall revenue collections have suffered as a result of the economic impacts on nonprofit tenants. The Department believes it is representing the wishes of both the public and elected officials, as well as the long-term interest of the City, by working with these nonprofits to develop payment plans, rather than terminating their leases. As of July 29, 2012, the SCF balance was (\$2,360,000), including reserves. The Department has been working with all the affected arts organizations to arrange payment plans or modify leases to reimburse amounts due to Seattle Center. In one example, Ordinance 123791 approved in December 2011, addressed a significant source of negative cash flow by modifying the lease with The Children's Museum, Seattle.

Nevertheless, current economic conditions have not allowed the Department to generate the surplus cash necessary to repay the loan within the time frame specified in the original ordinance. We are requesting an additional \$500,000 in loan authority, giving a total of \$3,500,000 to provide for planned expenditures from the McCaw Hall reserve funds which will reduce the Department's available cash balances in 2013 and 2014

As noted above, the most significant reason for the negative cash position is the non-payment of leases by nonprofit tenants affected by the economic downturn. In addition, it is not uncommon for the Department's cash expenditures to exceed its cash receipts periodically during the fiscal year. This is due to normal time lag between client billing and payment, accentuated by the uneven timing of events held in Seattle Center facilities. When the SCF has moved into a negative cash position in the past, temporary loans from the City's Consolidated Cash Pool have provided the cash necessary to bring the Department back out of its negative position. In addition, during 2002, 2003, 2005, and 2007, the Department of Finance advanced the transfer of a portion of Seattle Center's General Fund allocation to the SCF in order to provide a positive cash flow balance and delay triggering the Seattle Municipal Code (SMC) requirements that loans longer than 90 days must be authorized by ordinance.

The second issue addressed by the ordinance is repayment of the proposed loan. The original legislation specified that the loan was to be repaid in full no later than December 31, 2012. In April 2012, a report to Council (SLI response) indicated that Seattle Center would not be able to generate sufficient cash surplus in 2012 to fully repay the loan without deep cuts in service or a fundamental restructuring of its core lines of business. Accordingly, the legislation proposed here seeks to extend the period granted for loan repayment by five years until December 31, 2017. The Department is meeting regularly with the City Budget Office and Council Central Staff to develop a long-term strategy for addressing the negative cash position situation in addition to the plan for repaying this interfund loan.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

Anticipated Total Revenue from Entire Program, Including Changes Resulting from this Legislation:

Fund Name and Number	Revenue Source	Total 2013 Revenue	Total 2014 Revenue
Seattle Center Fund (11400)	General Fund Consolidated Cash Pool (00100)	\$500,000	\$0
TOTAL		\$500,000	\$0

Total Revenue Notes: To pay back the loan, cash receipts must exceed cash payments by the amount of the loan by the end of 2017.

Other Implications:

- a) Does the legislation have indirect financial implications, or long-term implications?
None identified.

- b) What is the financial cost of not implementing this legislation?
Without this loan, the SCF will be in a negative cash position (receiving a de facto loan) for more than 90 days. SMC Section 5.06.030.C requires City Council approval by ordinance of any interfund loan for a duration of more than 90 days.

- c) Does this legislation affect any departments besides the originating department?
No other departments are affected by this legislation.

- d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?
Alternatives to this legislation include subsidizing the SCF with additional General Fund resources or “advancing” General Fund allocations. In this latter case, the City could temporarily restore the SCF to a positive cash position by advancing a portion or all of the Department’s budgeted monthly General Fund support to cover the losses incurred in 2011 and 2012. The Executive does not recommend this approach in the current economic climate.

- e) Is the legislation subject to public hearing requirements?
No.

- f) Other Issues:

Please list attachments to the fiscal note below: None.