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RESOLUTION _____

A RESOLUTION establishing financial policies for the Arts Account of the General Subfund.

WHEREAS, in January, 2001, the City Council adopted Ordinance 120183 creating an Arts Account Subfund of the General Fund funded by revenues received by the City in the form of Admissions Tax and General Fund; and

WHEREAS, in 2009, the City Council adopted Ordinance 123155 increasing the portion of the Admission Tax received by the Office of Arts and Cultural Affairs (OACA) from 20% to 75% of the annual Admission Tax receipts, and eliminating all General Fund support to the Department; and

WHEREAS, Admission Tax revenues fluctuate year over year, and the Mayor and the City Council share an interest in maintaining the long-term financial health of the Arts Account to support OACA's arts and culture related core programs; and

WHEREAS in November 2010, the City Council adopted Ordinance 123460 reaffirming the City Council's dedication of 75% of the City's Admission Tax revenues to OACA, of which 25% was temporarily directed to fund arts-related programs conducted by the Department of Parks and Recreation, expiring on December 31, 2012; and

WHEREAS, the purpose of the Arts Account of the General Subfund is to support OACA's arts and culture related programming ; and

WHEREAS, in accordance with Ordinance 123460, OACA developed a financial policy in cooperation with the City Budget Office and provided this policy to the Seattle Arts Commission for comment; **NOW, THEREFORE,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE
MAYOR CONCURRING, THAT:**

Section 1. The Council adopts the following financial policies concerning the retention of revenues deposited into the Arts Account subfund:



1 1. Retention of Admission Tax revenues: It shall be the policy of OACA to retain a
2 minimum of 8 percent of Admission Tax revenues deposited into the Arts Account Subfund.
3 The 8 percent shall be calculated on those Admission Tax revenues deposited into the Arts
4 Account Subfund that are for the sole use of OACA.

5
6 2. Reserve Account: A minimum reserve fund balance of \$400,000 shall be retained to
7 address any short-term fluctuations in Admission Tax revenues that undermine OACA's ability
8 to fund those programs and activities outlined in Seattle Municipal Code (SMC) Section
9 5.40.120.

10
11 3. Timing: The reserve fund balance shall be initially developed over a minimum 3 year
12 period beginning January 1, 2012. After January 1, 2015, if the fund balance drops below
13 \$400,000, as calculated over an 18 month time period, it shall be replenished within a 2 year
14 time period to restore a minimum of \$400,000 fund balance.

15
16 4. Use of fund balance: The reserve fund balance shall be maintained solely for the
17 purposes of supporting OACA programs outlined in SMC 5.40.120 and shall not be used or
18 directed to any other program or account.

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21 Section 2. By June 1, 2013, the Council shall receive a written report from OACA that
22 assesses these policies and, where appropriate, makes any recommendations on amendments to
23 these policies.



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Adopted by the City Council the ____ day of _____, 2011, and
signed by me in open session in authentication of its adoption this ____ day
of _____, 2011.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2011.

Monica Martinez Simmons, City Clerk

(Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Office of Arts and Cultural Affairs	Vincent Kitch 684-7173 Michael Jenkins/Legislative Analyst, Legislative Branch - 615-1674	Greg Shiring 386-4085

Legislation Title: A RESOLUTION establishing financial policies for the Arts Account of the General Subfund.

Summary of the Legislation: This proposed resolution establishes an operating reserve of eight percent of the annual expenditure budget for the Arts Account Subfund. The primary purpose of the reserve is to limit the impact of the volatility of Admissions Tax revenues, the Subfund’s sole source of revenue, on arts programming from year to year.

Background:

In January, 2001, the City Council passed Ordinance 120183 creating an Arts Account Subfund of the General Fund that was funded with 20% of the annual Admissions Tax (“Ad Tax”) receipts. Additional programming for OACA was provided by the General Fund. Prior to 2010, the portion of the OACA budget funded by the Ad Tax was based on a forecast of the current year’s revenues. Under this practice, OACA was uncertain as to what their final revenue for the year would be. This led to difficulty in determining what amount of funding would be available to distribute to the various arts programs. To address this uncertainty, a “Reservation for Revenue Shortfall” within the Arts Account was established in the 2007 Adopted Budget to provide funding during the years that revenues didn’t meet the adopted budget levels.

In 2009, Council adopted Ordinance 123155 which increased the portion of the Ad Tax received by OACA from 20% to 75% of the annual Ad Tax receipts, and eliminated all General Fund support to the Department. The methodology used to set the annual revenue amount transferred to the Arts Account was also changed to bring more consistency to the process: rather than base revenues on an annual *forecast*, which created the need for constant monitoring and the withholding of spending as the actual revenue picture developed, the revenues would be set at 75% of the *actual* Admissions Tax revenue received by the City two years prior. For example, in 2011, OACA will receive \$4.19 million in revenue, or 75% of the 2009 actual Ad Tax revenues. As part of this change, the Reservation for Revenue Shortfall for the Arts Account Subfund was removed in the 2011 Adopted Budget.

Although the unpredictability in Ad Tax revenue no longer has an impact on the current-year distribution of arts funding as a result of the changes described above, Ad Tax revenues continue to fluctuate from year to year. To address these fluctuations, it is recommended that policies be established to address the retention of funds as part of the ‘Operating Reserves’ displayed in the

Arts Account Subfund. Again, the purpose of this reserve is to limit the impact of the volatility of Ad Tax revenues on arts programming.

The policy included in this Resolution states that a dedicated reserve equal to 8% of Ad Tax funded appropriations be maintained in the Arts Account Subfund. CBO and OACA estimate that the 2012 ending fund balance in the Arts Account Subfund will increase from \$340,000 as projected in the 2012 Endorsed Budget to approximately \$670,000. This is a result of reductions in spending in 2011 as part of the City's mid-year reduction process, and an increase in revenues available to support the 2012 budget over the amount anticipated in the 2012 Endorsed Budget. (Note – this estimated amount is prior to any further changes in expenditures levels recognized as part of the 2012 Proposed budget process.) Based on the 2012 Endorsed Budget of \$4.5 million, the initial Operating Reserve would be \$360,000 beginning in 2012. If there are changes made to appropriations for the 2012 Proposed Budget, the reserve amount would be adjusted to 8% of the appropriation budget. Any fund balance amount available after funding the Reserves at 8% of expenditures becomes part of the Arts Account unreserved fund balance.

Note –the Council adopted its own version of the legislation originally proposed by the Executive. There were 6 minor changes to the Executive's proposed policies, none of which affect the basic assumptions underlying the Executive's analysis. These changes include:

- 1. Require that the 8% to be held in reserve be calculated on the Admission Tax revenues solely for the use of OACA;**
- 2. Set a minimum dollar figure of \$400,000 to be held in reserve, an amount which is proportional to the 8% figure proposed by the Executive;**
- 3. Allow the reserve fund to be developed over a 3 year time period, to minimize the fiscal impact on OACA funded programs;**
- 4. Requires replenishment of the fund balance within a 2 year time period, calculated over 18 months, if the fund balance drops below \$400,000;**
- 5. Include language in the policies and the recitals that reinforces that use of Admission Tax revenues are solely for OACA programs; and,**
- 6. Requires OACA to report back to Council by June 1, 2013, concerning how these fiscal policies are working and how any impacts on OACA programs have been addressed.**

This legislation does not have any financial implications.

This legislation has financial implications.

Note: While this Resolution does not include any changes in appropriations or revenue, the Resolution establishes new fiscal policies for the Arts Account Subfund.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
In future years, the Reserve established within the Arts Account Subfund may not be

underfunded for more than two consecutive years. As a result, the City may need to adjust appropriation levels to retain sufficient funding in the Reserve to meet the 8% level of total appropriation.

b) What is the financial cost of not implementing the legislation?

None.

c) Does this legislation affect any departments besides the originating department?

No.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

Reserve could be established at an amount other than eight percent, and the policy for replenishing the reserve could be adjusted.

e) Is a public hearing required for this legislation?

No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

g) Does this legislation affect a piece of property?

No.

h) Other Issues:

None.

List attachments to the fiscal note below: