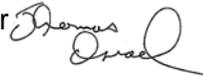




MEMORANDUM

TO: Parks and Seattle Center Committee Members

FROM: Tom Israel, Director Finance and Administration, Seattle Center 

DATE: November 28, 2011

RE: The Children’s Museum, Seattle Lease Agreement

Introduction

This legislation authorizes the modification and renewal of the lease agreement between The Children’s Museum, Seattle (TCM) and the City of Seattle. The existing lease agreement, authorized by Ordinance 117879 in 1995, covered the period from October 1, 1995 through September 30, 2010. Since October 1, 2010 TCM has operated under a “hold over” clause which allows for month to month operations until contract negotiations had been completed. This new agreement establishes a revised rent structure for the Museum and addresses the arrearage which has accumulated over a number of years.

The parties have negotiated the lease with three basic goals:

1. To reset the rent to a sustainable level which the Museum can realistically afford.
2. To obtain appropriate rental value for the use of public space in the Center House.
3. To address the accumulated back rent amounts without adversely impacting the City’s General Fund or Seattle Center’s budget.

Background and Highlights

TCM was founded as a nonprofit organization in 1979 by a group of Seattle parents and educators. In early 1981, TCM opened its first exhibit at the Wing Luke Museum, and in June of that year the organization moved into its own facility in a Pioneer Square storefront. After consultation with the City, TCM moved into its current location on the first floor of Center House at Seattle Center in 1985. An expansion in 1989 added a museum retail shop. As part of an overall remodel of the Center House in 1995, the Children’s Museum facility grew from 12,000 square feet to 32,000 square feet, adding office space, workshop space, and increased gallery space.

Overall, TCM serves approximately 240,000 visitors annually. The organization’s programs are targeted for children ages birth to ten years. Patrons pay a daily admission fee of \$7.50/adult or child or buy an annual family membership for \$85. The museum features a variety of educational exhibits, hands-on activities, informal learning programs and parent mentoring. The facility provides critical early learning opportunities which have been shown to build skill development in young children and foster successful performance in the formative early school years. These early learning opportunities are important in building a foundation that leads to high school graduation and the creation of strong families. TCM is an accredited member of the

Association of Children's Museums and employs a year round staff of 12 full-time and 18 part-time employees. The Museum also engages a number of work-study students each year to help further the experience of potential future educators.

The 1995 lease included a tiered rent schedule which gradually increased payments. The intent was to enable TCM to establish a consistent revenue base within the initial years of the lease term. Due to limited community awareness of its location, as well as many expanded program costs intended to draw visitors to the expanded facility, the museum initially struggled financially. To address the financial issues it faced, TCM made the strategic decision to offer content and services outside of the museum proper - in locations throughout the Seattle region. TCM also provided traveling exhibits intending to draw visitors and heighten the community awareness of its location and offerings. These strategies, while well intentioned, were not successful enough to resolve TCM's financial issues. Over time it became clear that the existing lease rates were unsustainable for TCM.

Recognizing that the existing lease rates were challenging, and the value TCM provides to Seattle's children, the City provided financial assistance to the museum on several occasions. While the combined efforts of TCM and the City helped, still by the end of 2007 the museum remained in arrears. The economic downturn that began in 2008 compounded the existing situation, an experience shared by many cultural organizations in the Seattle area. In late 2009, TCM's new administration began making weekly payments, at a sustainable amount, to demonstrate its commitment to its lease obligation. Despite its ongoing efforts, by the end of 2011, TCM will owe the City an estimated \$600,000.

TCM wants to stay at Seattle Center and believes it is possible to succeed long term if its rental terms recognize its non-profit status and the public benefit it provides to the community. TCM is also committed to repaying its outstanding debt. As the financial history demonstrates, the lease rates included in the original TCM lease were not sustainable. Accordingly, Seattle Center is now proposing financial terms which recognize that TCM has limited cash resources but nevertheless provides significant value to the community. The proposed agreement resets the lease terms to recognize the value of the public benefits provided by TCM. These terms affirm that TCM's success is important to Seattle Center and to the Seattle community while providing for reasonable cash flow to the department and a plan for addressing back amounts owed.

The proposed lease term is ten years, beginning January 1, 2012 and ending December 31, 2021. The lease also provides TCM the option of extending the lease for up to two periods of five years each. Rent will be adjusted for CPI increases every five years, including the extension periods if the lease is extended, with a cap of 10%.

Under the agreement, TCM's annual rent is \$190,000 or \$6 per square foot of space leased. A minimum of \$90,000 annually will be paid in cash and the remaining \$100,000 will be paid as Public Benefit Rent. Public Benefit Rent is based on an annual proposal submitted at the beginning of each year by TCM, subject to approval by the Seattle Center Director, and supported by a year-end report which documents the actual public benefits provided. Types of benefits anticipated to be provided include the continuation of existing programs which provide free admission to at risk families.

The agreement also creates a framework to address the accumulated balances owed to the City. Through a combined approach of partial debt forgiveness and an extended timeframe to pay remaining balances, both the City and TCM share in helping to restore the museum to a

sustainable financial footing. Under the agreement, TCM will pay a minimum of \$20,000 per year towards its debt until the debt is paid off, with a mandatory completion date of December 31, 2021. The City will match TCM's payments with a commensurate write off of an additional \$20,000 per year from the amount owed. In addition, subject to the Seattle Center Director's certification of proof of services rendered, TCM will be allowed a onetime credit for the public benefits provided during 2010 and 2011 up to a value of \$100,000 each year toward outstanding amounts due.

While this new lease is pivotal in helping to reestablish TCM's financial stability, it is important to recognize that its current leadership has implemented a series of strategic initiatives to bring new vibrancy to the museum and begin building towards a stronger future. These new initiatives include revised financial management policies, a "zero based" budgeting process based on prior year actual performance and new staffing patterns which flex to stay within available resources. Additionally, TCM has developed a variety of early learning programming plans which focus on leveraging new partnerships that benefit TCM's mission, and hopefully, other Seattle Center campus partners. By combining efforts to increase programming within our community, and "right sizing" its lease to a sustainable level, TCM is poised to weather the current economic downturn and position itself well for the future.

The Children's Museum, Seattle is an important member of Seattle Center's campus. Its programs support young children and parents in developmentally appropriate ways that create a foundation for strong families later in life. In addition, the museum brings thousands of young visitors to the Center's campus and is an important "entry point" to help build new audiences for the Center's resident organizations. The proposed lease is designed to assist the financial stabilization of an anchor cultural institution in this region.

cc: Robert Nellams, Director, Seattle Center
Donna Marie Bertrand, Executive Director, The Children's Museum, Seattle
Greg Shiring, City Budget Office