

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

CAD
Memo No. 3

Date: May 4, 2010

To: Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer *MAS*

Subject: **DEPARTMENT OF CULTURAL AFFAIRS – RECOMMENDATIONS FOR NON-PROFIT LEASING POLICY**

On April 30, 2010, your Committee requested that the Department of Cultural Affairs (Department) report back on recommendations to consider as part of the City's non-profit leasing policy. Attached is a copy of the Department's response dated May 4, 2010.

MAS:JLVW:08100261

Question Nos. 86

CITY OF LOS ANGELES
INTERDEPARTMENTAL CORRESPONDENCE

DATE: MAY 4, 2010

TO: The Budget & Finance Committee

FROM: Olga Garay, General Manager
Department of Cultural Affairs (DCA)

SUBJECT: FY 2010-11 BUDGET QUESTION NO. 86

A joint committee consisting of the Budget and Finance and Information Technology and Government Affairs Committees has recently approved Council File 08-2762 regarding leased City-owned properties/non-profit organizations to regulate how the City leases and sells properties to non-profit organizations.

In an effort to reduce full-time staff and attendant costs, DCA has been directed to develop an RFP to identify non-profit arts organizations to manage and program a total of 14 arts centers and theaters, six of which are currently partnered out. In the absence of a standardized policy, which has been adopted by the City Council, we are at a loss on how to move forward with the RFP since important terms of the contracts have yet to be decided.

DCA is concerned that some of the provisions in the policy referenced above will make it more difficult to identify qualified partners. These include the following items, which are followed by DCA's concerns in CAPS.

- **A qualifying non-profit organization shall be limited to non-profit lease subsidies for no more than two city-owned facilities at any one time, including its parent and/or affiliates;**

DCA IS INTERESTED IN POSSIBLY BUNDLING A COUPLE OF ITS FACILITIES, ESPECIALLY IN BARNSDALL ART PARK, AND THIS PROVISION WOULD NOT ALLOW IT.

- **Lease term shall be co-terminus with the end of the Councilmember's term of elected office, in whose district the leased facility is located, with any exceptions determined by the City Council on a case by case basis;**

THIS PROVISION WILL MAKE IT EXTREMELY DIFFICULT FOR NON-PROFIT ORGANIZATIONS TO FUNDRAISE, SINCE FUNDERS ARE UNLIKELY TO INVEST IN ORGANIZATIONS WITH WHAT COULD BE SHORT TERM LEASING ARRANGEMENTS.

- **Non-profit organizations will be financially responsible to utility providers for payment of all utility costs and for installation cost of a separate meter, if not already installed in the facility;**

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DCA THINKS THAT EXPECTING ARTS NON-PROFITS TO BE FULLY RESPONSIBLE FOR ALL UTILITY COSTS NEEDS TO BE EXAMINED TO DETERMINE THE REAL FINANCIAL IMPACT OF THIS MEASURE, BEFORE REQUIRING FULL UTILITY PAYMENT. ESPECIALLY IN THE EARLY YEARS OF THE PARTNERSHIP, A SLIDING SCALE MAY BE MORE APPROPRIATE. SUCH COSTS, WHICH CAN BE UPWARDS OF \$80,000 ANNUALLY, WOULD BE PROHIBITIVE FOR MANY ARTS ORGANIZATIONS.

- **Non-profit organizations will be financially responsible for custodial, interior and exterior maintenance, repairs and landscaping for the leased premises, as applicable, and must agree to maintain the facility in good condition in accordance with lease terms;**

AGAIN, THIS PROVISION NEEDS TO BE EXAMINED TO DETERMINE THE REAL FINANCIAL IMPACT OF THIS MEASURE BEFORE REQUIRING FULL RESPONSIBILITY FOR THESE ITEMS.

- **Non-profit lessees shall be responsible for submitting monthly fair market rate lease payments, as determined by the General Services Department or other authorized representative of the City; and,**

GOING FROM \$1 A YEAR LEASE TO FULL COST RECOVERY (OR POTENTIALLY EVEN 50% IF APPROVED BY THE COUNCILMEMBER RESPONSIBLE) NEEDS TO BE INTRODUCED OVER A MULTI-YEAR PERIOD.

The goal of partnering out a number of DCA's art centers and theaters in order to shrink our full time workforce, and thus our salary and overhead costs, while maintaining programs and services at these sites, is a strategy with a history of mixed results. In some cases, the partnered sites have blossomed (though all are always dependent on fundraising, which is often difficult to predict, especially in difficult economic times). In other cases, the facilities and programs run for a while but are eventually returned to the City, most often due to economic hardships.

Our concern is that this policy may result in the failure of non-profits and lead to either shuttered facilities or DCA's need to re-instate staff to keep that from happening. Neither scenario is acceptable. Even if the City were to be able to generate rental receipts of \$1.5 M annually from the nearly 100 arts, human services and educational non-profits currently using City property, the failure of even 25% of these organizations would result in millions of dollars out of the City's general economy.

DCA is pointing out several items in the proposed non-profit facilities rental policy that raise concerns in an effort to devise a policy that standardizes current efforts while improving the chances that partner non-profits will succeed as hoped for.

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Further, DCA currently provides \$15,000 per annum to the six arts centers currently partnered, or \$90,000. This provides them support for standard operating expenses such as salaries and programming costs. In our FY 10-11 Budget letter to the B & F Committee, we proposed to include a subsidy of \$14,000 per year X 14 facilities for a total net increase of \$106,000, which we have absorbed by reducing other line items.

We strongly feel that providing seed funding will significantly improve the chances of success for these non-profit partner organizations by allowing them some time to develop or increase their fundraising capabilities.