

Briefing Note
Budget & Fiscal Management Committee
November 19, 2001

Agenda Item: 3

Topic: Arts funding-3% of sale proceeds from cx surplus property

Proposed Ordinance 2001-0488 would require that three percent of the proceeds from the sale of CX-owned surplus property be deposited in the arts and cultural development fund.

- On November 13, 2001, BFM held a public hearing and subsequently moved the ordinance to the full council with a “do pass” recommendation, 9-0.

Significant Points:

- Provisions of state law and a decline in County general fund revenues have the net effect of reducing grant funding for King County arts and heritage programs by 48 percent or \$2.55 million in 2002.
- This funding situation is likely to persist into the foreseeable future.
- County arts organizations are an important part of our community and create over 9,000 direct jobs (per 1997 study).
- What will be the result of the funding decrease on arts employment and on the financial viability of arts and heritage organizations? Unknown
- The funding mechanism proposed by the ordinance is highly variable, and if implemented, may be best used to fund an *arts endowment*.

Possible Questions:

For Executive or Council Staff

1. Has anyone estimated the short- and long-term impacts of the funding cuts in the arts?
2. There are other ordinances that direct the use of proceeds from the sale of surplus CX properties. What is the cumulative effect of these ordinances?



**METROPOLITAN KING COUNTY COUNCIL
BUDGET AND FISCAL MANAGEMENT COMMITTEE**

STAFF REPORT

AGENDA ITEM: 14

DATE: November 7, 2001

PROPOSED NO: 2001-0488

PREPARED BY: Mike Alvine

SUBJECT: AN ORDINANCE directing the distribution of proceeds from real property sales; and amending Ordinance 12045, Section 12, and K.C.C. 4.56.130.

SUMMARY: The proposed ordinance would direct that for all sales of real property with gross proceeds of \$250,000 or greater, three percent of the gross sales be deposited into the arts and cultural development fund. This only applies for properties where sales accrue to the current expense fund.

Background - Beginning in 2002, arts and heritage programs will experience a very sharp drop in funding from King County. Revenues from the hotel/motel tax and the County's current expense (general) fund have historically provided very significant support for countywide arts and heritage programs. Two provisions of state law come into effect on the hotel/motel tax in 2002 that reduce arts funding by about \$1.2 million. At the same time, the County's current expense (CX) fund has not kept pace to support even a status quo budget. The Executive has recommended no CX funding for the arts in 2002, a loss of \$950,000. *Attachment 2* provides more detail on this issue.

Given increased debt service for the arts bond issue approved for the current year, the net effect on grant funds directly to organizations is a loss of \$2.55 million, a 48 percent decrease. The arts and heritage community has said this will be devastating in both the near and long terms.

Two studies have recently documented the economic importance of arts and heritage programs in King County. The most comprehensive study of all arts activity in King County was conducted by GMA Research Corporation and Dr. William B. Beyers of the

University of Washington, covering the year 1997, released in 1999 (*An Economic Impact Study of Arts and Cultural Organizations in King County: 1997*). Key findings of the study include:

- \$338 million in business income was generated by the spending of arts patrons and arts organizations;
- 12,839 direct and indirect jobs and \$171 million in labor income are generated by arts organizations;
- 9,587 direct jobs and \$62.4 million in labor income was paid by arts organizations;
- Over \$24 million in taxes were collected by state and local governments due to arts spending;
- Employment has increased by 45 percent since the 1993 study of the arts.

A similar study released by the Eastside Arts Coalition in September of this year covered the year 2000 and was also conducted by Dr. Beyers (*Creative Necessity*). The findings include:

- Eastside arts organizations generated \$40 million in business activity;
- 2,452 jobs and \$19 million in labor income was generated by arts expenditures;
- Budgets for eastside cultural organizations totaled \$15 million;
- Eastside cultural organizations paid \$194,000 in state and local taxes.

Revenue Potential – In order to get a feel for the revenue the ordinance might generate for the arts, I asked Property Services for sales records covering the last five years, as well as planned sales in 2002-2003. *Attachment 3* provides tax title properties as well. In the last five years, only one property fit the criteria of being sold for the benefit of CX and being over \$250,000. The Washington Center Building was sold in 1999 for \$1.8 million and would have generated \$54,000 for the arts and cultural resources fund.

Looking ahead to the 2002-2003 time period, there are 10 parcels currently identified as CX-owned, anticipated to be sold. The adult detention parcels will not directly benefit the CX fund. The Stadium Administration property proceeds are already spoken for, and only one of the Property Services parcels meets the \$250,000 threshold. It could generate up to \$19,000 for the arts. Tax title property proceeds revert back to the jurisdictions in which the back taxes apply. *The highly variable nature of this funding mechanism makes it better suited to fund an endowment than operations.*

Other Ordinances Directing Proceeds of Real Property Sales – There are a number of other ordinances directing use of surplus property sales. The following is a list with a brief description.

Ordinance 10728 – Calls for financing the Major Maintenance Reserve Fund with proceeds from sale of real property. Jay?

Ordinance 12989 - Expands the authority to use county surplus property sale proceeds to benefit non-profit organizations that provide services to the poor and infirm.

Ordinance 12926 (1998 Adopted Budget) - Includes a proviso calling for the assignment of all surplus properties to an asset management pool benefiting the workforce housing fund. (Never implemented due to legal issues.)

Ordinance 13262 – Controls the transfer and dispose of stadium properties. Provides that, at a minimum, the first \$3 million of proceeds for the sale of the North Kingdome Lot be set-aside to subsidize affordable housing units.

Ordinance 13340 (1999 Adopted Budget) - Includes a proviso calling for the proceeds from the surplus sale of the Doces building be returned to the revenue fleet replacement fund. Closing is slated to happen very soon.

Ordinance 13340 (1999 Adopted Budget) - Includes a proviso to cover \$1.4 million of Cultural Development debt from the sale of surplus County property.

Ordinance 13340 (1999 Adopted Budget) - Includes a proviso calling for the distribution of sales proceeds from sale of Stadium Property for outdoor sports fields for youth.

ATTENDING:

Jim Kelley, Director, Office of Cultural Resources, King County

Dave Preugschat, Manager, Property Services Section, DES, King County

Carol Thompson, Assistant Manager, Property Services Section, DES, King County

ATTACHMENTS:

1. Ordinance 2001-0488
2. Cultural Development Fund
3. Profile of Surplus Current Expense and Tax Title Properties



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

November 5, 2001

Attachment 2

Ordinance

Proposed No. 2001-0488.1

Sponsors Hague

1 AN ORDINANCE directing the distribution of proceeds
2 from real property sales; and amending Ordinance 12045,
3 Section 12, and K.C.C. 4.56.130.
4
5

6 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

7 SECTION 1. Ordinance 12045, Section 12, and K.C.C. 4.56.130 are hereby
8 amended to read as follows:

9 **Disposition of sale proceeds.** A. The county organizations responsible for
10 conducting sales shall be reimbursed for advertising, postage and selling fees, if any,
11 from the proceeds of the sale. The director of finance is authorized to establish such
12 funds and accounts necessary to deposit sale proceeds until final disposition. The balance
13 of the proceeds shall be deposited into the proper county fund or account, as directed by
14 the property services division or the county council. On transactions with gross sale
15 proceeds of two hundred fifty thousand dollars or greater that are to accrue to the current
16 expense fund, three percent of the gross sale proceeds are to be deposited into the arts and
17 cultural development fund.

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B. In no case shall the title be transferred until the purchase price has been fully paid.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

ATTEST:

APPROVED this ____ day of _____, _____.

Attachments None



**METROPOLITAN KING COUNTY COUNCIL
COMMITTEE-OF-THE-WHOLE**

**CULTURAL DEVELOPMENT FUND
(HOTEL-MOTEL TAX REVENUES)**

IMPACTS ON CULTURAL PROGRAM FUNDING IN 2002:

1. **State law - provisions impacting hotel/motel tax allocations:**
 - Allocation to cultural programs reduced from 75% to 70%.
 - 40% of revenues to be set aside in an endowment through 2012.

2. **King County impacts:**
 - Increased administrative costs due to a decrease in available CX funding for cultural program staff.
 - Increased debt service due to recent passage of the \$2.5 million Regional Cultural Facilities bond.

Table 1 and Table 2 illustrate the state and county impacts on revenues available for and expenditures on cultural programs.

Table 1: Revenues Available for Cultural Programs 2000 vs. 2001

	2000	2001
1. Total H-M Gross Revenues	\$14,005,807	\$14,425,981*
2. Kingdome Debt Service	(\$5,300,000)	(\$5,300,000)
3. Excess H-M Revenues	\$8,705,807	\$9,125,981
4. % to Cultural Programs	75%	70%
5. \$\$ to Cultural Programs	\$6,529,355	\$6,388,186
6. Endowment Set-aside 40%	N/A	(\$2,300,000)
7. Subtotal:	\$6,529,355	\$4,088,186
8. Reserve Set-aside	(\$666,380)	+592,496
9. TOTAL REVENUES:	\$5,862,975	\$4,680,682

*Based on a projected 3% increase. Actual revenues could be lower.

Table 2: Expenditures: King County Allocation to Cultural Programs 2001 vs. 2002

	2001	2002
1. Debt Service	\$684,000	\$974,457
2. Administration	\$759,637 (10.50 FTEs)	\$903,303 (12.50 FTEs*)
3. Grant Programs		
• Cultural Facilities & Assets	\$2,950,000	\$1,300,000
• Sustained Support	N/A	\$1,000,000
• Special Projects	\$825,000	\$275,000
• Cultural Education	\$625,000	\$160,000
• Landmark Restoration	N/A	\$65,000
4. Subtotal:	\$4,400,000	\$2,800,000
5. TOTAL EXPENDITURES:	\$5,843,637	\$4,677,760

*Reflects the transfer of staff from the Office of Cultural Resources (CX) budget to the Cultural Development Fund.

Explanations:

Table 1: Revenues

- Line 1. Gross hotel-motel revenues collected in King County.
- Line 2. Hotel-motel allocation of \$5.3 million to finance debt service on the Kingdome through 2012 per RCW.
- Line 3. Hotel-motel revenues available for other programs designated by RCW.
- Line 4. The percentage allocation for cultural programs per RCW.
- Line 5. The dollar figure available for cultural programs.
- Line 6. Per RCW, 40 percent of the revenues collected between 2001 and 2012 shall be set aside to create an endowment to fund cultural programs.
- Line 7. Subtotal of revenues available for cultural programs.
- Line 8. Revenues set aside to off-set significant decline in revenues in 2002. This line indicates the dollars not expended in 2001 (\$666K) and the funds that will be expended in 2002 (\$592K).
- Line 9. Total revenues available for cultural programs.

Table 2. Expenditures

- Line 1. Debt service on bonds against the Cultural Development Fund. Debt service in 2002 will increase due to passage of the \$2.5 million Regional Cultural Facilities Bond.
- Line 2. Administrative costs including salaries and benefits.
- Line 3. Cultural programs administered by the Office of Cultural Resources.
- Line 4. The total expenditures on grant programs from the Cultural Development Fund. This line shows there will be \$1.6 million fewer dollars for grants from this fund in 2002 than in 2001.
- Line 5. The total expenditure for cultural programs from the Cultural Development Fund including debt service, administration and grant programs.

**Cultural Development Fund (Hotel-Motel Tax Revenue)
Allocations pursuant to state law:**

From 1992 through 2000

- Initial \$5.3 million to stadium (Kingdome) related debt service
- 25% of the amount in excess of \$5.3 million for football stadium related debt service
- 75% of the amount in excess of \$5.3 million for cultural purposes

From 2001 through 2012

- Initial \$5.3 million to stadium (Kingdome) related debt service
- 30% of the amount in excess of \$5.3 million for football stadium related debt service
- 70% of the amount in excess of \$5.3 million for cultural purposes (40% of which shall be set aside to create an endowment fund)

From 2013 through 2016

- 100% to Kingdome debt (to football stadium and exhibition center account after all Kingdome debt is retired)

From 2017 through 2020

- 100% to state (football stadium and exhibition center account)

CULTURAL GRANT PROGRAM FUNDING
Cultural Development Fund
Current Expense Fund

Table 1 below shows the expenditures on grants to arts and heritage organizations from two funding sources:
 1. Cultural Development Fund
 2. Current Expense Fund

Table 1: Expenditures: Allocation to Cultural Grant Programs 2001 vs. 2002

	2001	2002
Expenditures - Grant Programs		
1. Cultural Development Fund (Hotel-Motel Tax)		
• Cultural Facilities & Fixed Assets	\$2,950,000	\$1,300,000
• Special Projects	\$825,000	\$275,000
• Cultural Education	\$625,000	\$160,000
• Landmarks Restoration ¹	n/a	\$65,000
• Sustained Support ²	n/a	<u>\$1,000,000</u>
Subtotal:	\$4,400,000	\$2,800,000
2. Office of Cultural Resources (CX)		
• Sustained Support ²	<u>\$950,000</u>	<u>\$0</u>
Subtotal:	\$950,000	\$0
TOTAL EXPENDITURES:	\$5,350,000	\$2,800,000
		Note: decrease of \$2.5 million in grant funding in 2002.

¹ Landmarks Restoration – new grant program in 2002 proposed by the Landmarks and Heritage Commission.

² Sustained Support Program – funded through CX in 2001; proposed to be funded through the Cultural Development Fund in 2002; allocation slightly increased in 2002.

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PROFILE OF SURPLUS CURRENT EXPENSE AND TAX TITLE PROPERTIES

<u>TYPE OF PROPERTY</u>	<u>NO. OF PARCELS</u>	<u>ASSESSED VALUE <= \$1,000</u>	<u>ASSESSED VALUE > \$1,000</u>	<u>TOTAL ASSESSED VALUE</u>
TAX TITLE - COAL & MINERAL	215	187	28	\$98,860
TAX TITLE - TIDELANDS	48	24	24	\$545,500
TAX TITLE - MISC. PARCELS	578	436	142	\$2,291,490
TOTALS	841	647	194	\$2,935,850
<u>CURRENT EXP. SURPLUS PROPERTY - TO BE SOLD DURING 2002 - 2003</u>	<u>NO. OF PARCELS</u>	<u>ASSESSED / APPRAISED VALUE</u>		
ADULT DETENTION	3	\$4,073,000		
PROPERTY SERVICES	4	\$867,000		
STADIUM ADMINISTRATION	3	\$4,600,800		
TOTALS	10	\$9,540,800		
<u>CURRENT EXP. SURPLUS PROPERTY - SOLD DURING 1996 - 2001</u>	<u>NO. OF PARCELS</u>	<u>SALES PRICE</u>		
1999 - WASHINGTON CENTER BLDG.	1	\$1,800,000		