

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 JUL -1 PM 8:18

To: Office of the City Administrator
Attn: Deborah Edgerly
From: Cultural Arts and Marketing Department
Date: July 13, 2004

Re: A RESOLUTION RESCINDING RESOLUTION NUMBER 94-43, WHICH AUTHORIZED THE IMPLEMENTATION OF THE CULTURAL ARTS REVOLVING LOAN PROGRAM MANAGED BY THE OAKLAND BUSINESS DEVELOPMENT CORPORATION, AND AUTHORIZING THE CITY'S PARTICIPATION IN THE ARTS LOAN FUND MANAGED BY THE NORTHERN CALIFORNIA GRANTMAKERS

SUMMARY

This report and resolution seek the dissolution of the Oakland Business Development Corporation's (OBDC) Cultural Arts Revolving Loan Program, authorized under City of Oakland Resolution Number 94-43 C.M.S., in favor of a new resolution establishing participation in the Arts Loan Fund managed by the Northern California Grantmakers (NCG).

As with the Cultural Arts Revolving Loan Program, the Arts Loan Fund would be linked to the Cultural Funding Program of the Cultural Arts and Marketing Department, aiding Oakland organizations in search of "bridge" loans by using their Cultural Funding Program awards as guaranteed collateral. The City's Cultural Funding Program Coordinator will sit on the Arts Loan Fund Steering Committee as the representative for Oakland's arts organizations. All loan requests are reviewed for authorization through this board, with loans collateralized by funding agencies having a guaranteed priority.

The proposal allows that an amount equivalent to the balance remaining in the existing loan fund will be for Oakland arts organizations through the new loan fund, and the proposed change has the additional advantage of making even more money available to arts organizations.

FISCAL IMPACT

Funds for the Cultural Arts Revolving Loan Fund were allocated from the Oakland Redevelopment Agency and are administered by the Oakland Business Development Corporation (OBDC). The original amount of ORA funds contributed to this program in its inception in 1994 was \$250,000. There has been no negative impact on the General Fund in running this program.

Participation in the Arts Loan Fund managed by the Northern California Grantmakers is recommended to be \$10,000 per year for the first three years. Thereafter annual participation contribution amounts would be recommended to the City Council as part of the Cultural Arts and

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Marketing Department budget during the City's biannual budget process in an amount not to exceed \$10,000 annually, and may be off-set by future installments of any currently outstanding loans.

According to the March 31, 2004, Financial Status Report provided by the OBDC, total funds available from the Oakland Redevelopment Agency monies that established the Cultural Arts Revolving Loan Program is \$79,819, comprised of \$46,491 in outstanding loans and \$33,328 cash from which OBDC will deduct a portion of their administrative fee prior to handing the funds back to the City. The first three years, or \$30,000, of initial participation monies for the Arts Loan Fund would be taken from the approximately \$33,328 cash now held by the OBDC. During this period there would be no negative impact on the General Fund in running this program.

In the years thereafter, participation contributions would be based on a) the health of the City's overall budget, b) the health of the Cultural Arts and Marketing Department budget, and c) use of the program by Oakland-based organizations. Future contribution amounts would be recommended to the City Council as part of the Cultural Arts and Marketing Department's two-year budget in amounts ranging from \$0 to \$10,000, depending on the factors listed above.

BACKGROUND

The City of Oakland's Cultural Arts Revolving Loan Fund was established in 1994 (Resolution No. 94-43 C.M.S.) with the intended purpose of reducing deficits, bridging funding gaps, meeting up-front expenses to produce and market programs in Oakland, and fund capital expenses when those expenses are critical to the ability of the organizations to generate income and produce programs in Oakland.

To be eligible for a loan, arts organizations must be Oakland-based, nonprofit, have received funding from the City, and have a track record of providing services in Oakland for at least three years. In addition, organizations must demonstrate the ability to repay the loan, provide a sound plan to reduce the organization's deficit and reorganize or restructure to bring program expenses in line with revenues, or to demonstrate a successful plan to increase revenues. The arts organization's board must guarantee loan repayment, or, in the event of non-repayment or delayed repayment, the loan amount plus interest, plus penalty would be deducted from future year grants to the organization. The amount of the loan may not exceed 50% of the annual City funding to the recipient, based on ability to repay the loan plus interest. Loan terms may not exceed two years, with interest payable monthly.

The charge by OBDC to administer the fund, paid from the trust, is \$10,000 per year. The most recent service agreement between the City and OBDC began on August 31, 2001, and was to be completed by August 31, 2003. However, the agreement was automatically extended for an

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additional one-year period, through August 31, 2004, because no new agreement was issued, nor was the agreement terminated in writing by the required date of July 15, 2003.

In 2002, at the request of City Council, the Craft & Cultural Arts Department reviewed the activity of the Cultural Arts Revolving Loan Fund to assess the effective utilization of funds. It was determined that loan activity never exceeded 35% of total funds available, with the highest disbursement having been made in 1997 for a total of \$85,000. Since then activity with the program has waned, with an outstanding loan balance as of March 31, 2004, of \$46,491 to three arts organizations: Oakland Ballet - \$37,385, Dance for Power - \$6,174, and Pro Arts - \$2,932 (final payment due in April 2004).

As a result of the 2002 Fund review, and with the approval of the Redevelopment Agency (ORA Resolution No. 02-70 C.M.S.), a reallocation of \$150,000 was made from the Cultural Arts Revolving Loan Fund to the FY 2002-2003 Parades, Runs and Street Festivals account for use on the City-sponsored Art and Soul Festival. With this reduction to the Fund, and with OBDC's annual fee of \$10,000 since 1994, and the outstanding loan balances, there is no longer enough money available to provide a meaningful number of loans to the community. As of March 31, 2004, only \$33,328 was available as cash in the bank, from which OBDC will be taking \$10,000 in administration fees should the contract be extended, leaving only \$23,328 for loan purposes.

KEY ISSUES AND IMPACTS

The Cultural Arts Revolving Loan Program is being whittled away by administrative fees disproportionate to the size of the existing loans. As it stands, with no new loans on the horizon, the administrative fees are 23% of the two outstanding loan balances, and 13% of all funds combined.

Furthermore, Cultural Arts and Marketing Department staff have concerns about the overall effectiveness of the OBDC oversight of the program. For example, a small number of past loans have been allowed to default with no contingency plans for the payback of funds, and contact from the loan administrator has been minimal and/or ineffective.

In January 2004, the Cultural Arts and Marketing Department was presented with the opportunity to participate in the Arts Loan Fund. By making a contribution to the general pool of loan funds already established, the City of Oakland would be buying into a sustainable service for the organizations of Oakland. Unlike the OBDC program where a lack of funds necessitated either granting a lower loan amount or the rejection of a loan request, all Cultural Funding Program grant recipients will be guaranteed a loan through the Arts Loan Fund. To date two Oakland organizations are planning to submit loan requests pending the results of this report. It is anticipated that by the end of three years more than the \$30,000 initially contributed by the City will have been disbursed to Oakland organizations.

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Fees paid to Northern California Grantmakers (NCG) for the administration of the fund are nominal and covered collectively by the funding organizations participating in the program. Annual flexible contributions by sitting members (represented on the board by staff members of the contributing funding organizations), make the loan fund sustainable in that, contrary to the OBDC model, no one organization is responsible for maintaining available monies throughout the years. Additionally, there is no maximum or minimum amount required for contribution to the Arts Loan Fund on an annual basis, and therefore, once the City's \$30,000 initial contribution over three years runs out, future contributions can fluctuate based on the state of the General Fund.

PROGRAM DESCRIPTION

The Arts Loan Fund (the Fund) is a collaborative program of the Northern California Grantmakers, a regional association of funders. The purpose of the Fund is to provide quick turnaround, low-cost financial assistance to Bay Area arts organizations experiencing cash flow problems. The Fund is not designed to replace contributed or earned income, but to help organizations manage their cash flow needs.

The Arts Loan Fund was started in 1981 in response to the demonstrated cash flow needs of arts organizations. While large nonprofit institutions and businesses can use commercial lenders, community arts groups generally cannot draw upon such resources or may pay high interest rates to do so. The Fund works to fill this gap and to provide a useful financial tool for small and mid-sized arts organizations. From 1981 until the end of 2002, the Fund provided more than 1,075 loans totaling almost \$12 million.

The Fund is independently funded by its members, which include foundations, corporations, and local city government programs. The Arts Loan Fund Steering Committee sets policy, develops programs, and makes decisions on loan applications with recommendations provided by Northern California Grantmakers staff. Through monthly meetings, the Steering Committee also shares and learns about trends in arts and culture funding.

The Arts Loan fund provides four types of loans:

1. Secured Loans: Collateralized by a government contract, grant or other guaranteed income, these loans are available up to \$50,000. The average loan in this category is between \$20,000 - \$25,000.
2. Benefit or Performance Loans: Secured with benefit proceeds or box office returns, loans in this category are available up to \$20,000.
3. Opportunity Loans: Loans up to \$30,000 are available for new revenue streams or cost-savings opportunities.
4. Quick Qualifier Loans: are available up to \$5,000.

Non-profit arts organizations located in the counties of Alameda, Contra Costa, Marin, San Francisco, San Mateo and Santa Clara are eligible to apply to the Fund, though only those receiving grants from participating funders who have an agreement to use the awards as collateral are guaranteed loans. Applications are reviewed by the Art Loan Fund Committee, which meets monthly; there are no application fees.

Should Council approve the move to join the Northern California Grantmakers' Arts Loan Fund, the City would join the following foundations, corporations, and government agency:

- Bank of America Foundation
- Bothin Foundation
- Chevron Corporation
- Columbia Foundation
- Community Foundation of Silicon Valley
- East Bay Community Foundation
- Fleishhacker Foundation
- Wallace Alexander Gerbode Foundation
- Richard and Rhoda Goldman Fund
- San Francisco Grants for the Arts
- Walter and Elise Haas Fund
- William Randolph Hearst Foundation
- The William and Flora Hewlett Foundation
- The James Irvine Foundation
- George Frederic Jewett Foundation
- JP Morgan Chase
- Koret Foundation
- Levi Strauss Foundation
- Marin Community Foundation
- The David and Lucile Packard Foundation
- Peninsula Community Foundation
- The San Francisco Foundation
- U.S. Leasing
- Van Lobensels/RembeRock Foundation
- Vodafone US Foundation
- Wells Fargo Foundation
- Zellerbach Family Foundation

SUSTAINABLE OPPORTUNITIES

Environmental: There are no environmental opportunities or benefits resulting from any action outlined in this report.

Economic: Sustaining community-oriented arts activities bolsters the cultural arts identity of Oakland, fortifying the city as a destination, and creating positive publicity resulting in varying levels of economic return. These loans will help stabilize the finances of the participating organizations, thereby stabilizing the services provided to Oakland residents.

Social Equity: The organizations and activities could benefit from the Arts Loan Fund outlined in this report contribute to economic and educational opportunities, thereby increasing the quality of life for all Oaklanders and visitors to the city.

DISABILITY AND SENIOR CITIZEN ACCESS

The only impacts and benefits to the disabled and senior citizen communities resulting from actions outlined in this report would be from the proposed activities of the applicants receiving loans.

RECOMMENDATIONS AND RATIONALE

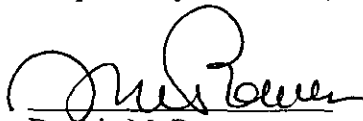
Staff recommends that the Oakland City Council accept this report and approve the resolution to rescind Resolution Number 94-43, authorizing the Oakland Business Development Corporation's (OBDC) Cultural Arts Revolving Loan Program, in favor of a new resolution establishing participation in the Arts Loan Fund managed by the Northern California Grantmakers (NCG).

Approval of this action would allow the City of Oakland to participate in a sustainable, well managed, well marketed, and in the long run less costly loan program geared specifically toward non-profit arts organizations. Oakland organizations awarded grants through the Cultural Funding Program would be guaranteed to receive a loan due to the increase in available money. Additionally, the City's participation in the Arts Loan Fund would elevate the awareness of Oakland-based organizations among the foundations and corporations that participate in the Arts Loan Fund, potentially increasing their chances of obtaining additional grants. Lastly, through Oakland City staff representation at the monthly Arts Loan Fund Steering Committee meetings, Oakland's cultural agenda will be represented and will have more direct access to the Bay Area's funding community.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council approve this report and resolution authorizing the dissolution of the Oakland Business Development Corporation's Cultural Arts Revolving Loan Program, authorized under City of Oakland Resolution Number 94-43 C.M.S., in favor of a new resolution establishing participation in the Arts Loan Fund managed by the Northern California Grantmakers.

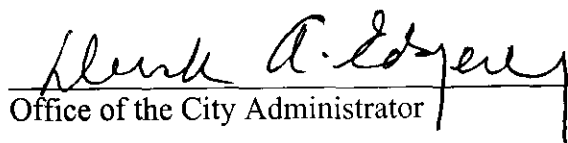
Respectfully submitted,



Dennis M. Power
Director, Cultural Arts and Marketing

Prepared by:
Raissa de la Rosa
Cultural Funding Program Coordinator

APPROVED AND FORWARDED TO THE
LIFE ENRICHMENT COMMITTEE:



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OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

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RESOLUTION RESCINDING RESOLUTION NUMBER 94-43, WHICH AUTHORIZED THE IMPLEMENTATION OF THE CULTURAL ARTS REVOLVING LOAN PROGRAM MANAGED BY THE OAKLAND BUSINESS DEVELOPMENT CORPORATION, AND AUTHORIZING THE CITY'S PARTICIPATION IN THE ARTS LOAN FUND MANAGED BY THE NORTHERN CALIFORNIA GRANTMAKERS

WHEREAS, the Oakland Redevelopment Agency established a revolving arts loan program in June 1994 by appropriating \$250,000 in tax increments funds; and

WHEREAS, the Agency authorized the City Manager or his authorized representative to administer this program under Resolution Number 94-43 C.M.S.; and

WHEREAS, the Cultural Arts Department, which has overseen the Oakland Business Development Corporation's administration of the program since its inception, has determined after careful consideration that the current program model is unsustainable; and

WHEREAS, the City of Oakland has the opportunity to participate in a collaborative program of a regional association of funders called the Arts Loan Fund, administered by the Northern California Grantmakers; and

WHEREAS, the purpose of the Arts Loan Fund is to provide quick turnaround, low-cost financial assistance to Bay Area arts organizations experiencing cash flow problems; and

WHEREAS, the Arts Loan Fund is not designed to replace contributed or earned income, but to help organizations manage their cash flow needs; and

WHEREAS, the Arts Loan Fund is independently funded by its members, which include foundations, corporations, and local city government programs; and

WHEREAS, the Arts Loan Fund Steering Committee, which meets monthly and on which the City of Oakland has representation, sets policy, develops programs, and makes decisions on loan applications with recommendations provided by Northern California Grantmakers staff; and

WHEREAS, the Arts Loan Fund provides four types of loans:

1. Secured Loans: Collateralized by a government contract, grant or other guaranteed income
2. Benefit or Performance Loans: Secured with benefit proceeds or box office returns
3. Opportunity Loans: Available for new revenue streams or cost-savings opportunities
4. Quick Qualifier Loans: Available up to \$5,000; and

WHEREAS, non-profit organizations located in the counties of Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara are eligible to apply to the Arts Loan Fund; and

WHEREAS, applicants are called immediately after the monthly meeting and informed of the Committee's decision, and, if approved, the organization's Executive Director and an officer of the Board of Directors sign a promissory note obligating the organization to repay the loan with interest, at which point funds are disbursed; and

WHEREAS, participation in the Arts Loan Fund will be \$10,000 for the first three years, and



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thereafter annual participation contribution amounts will be recommended to the City Council as part of the Cultural Arts Department budget during the City's biannual budget process in an amounts ranging from \$0 to \$10,000 annually; and

WHEREAS, after the first three years, participation contributions will be based on a) the health of the City's overall budget, b) the health of the Cultural Arts Department budget, and c) use of the program by Oakland-based organizations; now, therefore be it

RESOLVED: That Resolution Number 94-43 C.M.S., which authorized the implementation of the Cultural Arts Revolving Loan Program managed by the Oakland Business Development Corporation, is hereby rescinded; and be it

FURTHER RESOLVED: That all remaining funds from the Cultural Arts Revolving Loan Program managed by the Oakland Business Development Corporation be used toward participation in the collaboratively sustainable Arts Loan Fund administered by the Northern California Grantmakers, thereby increasing loan potentials for Oakland-based non-profit organizations, and elevating awareness of these groups among foundations and corporations that participate in funding the program; and be it

FURTHER RESOLVED: That the City Council hereby appoints the City Administrator or her designated representative as agent of the City to determine the specific oversight of this program in coordination with the Office of the City Attorney; and be it

FURTHER RESOLVED: That a copy of this resolution be filed with the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20_____

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN and PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____

CEDA FLOYD

City Clerk and Clerk of the Council
of the City of Oakland, California



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