

Aug. 7, 2019

To: Mayor and Members of City Council

From: Patrick Duhaney, City Manager

Subject: **REPORT – POTENTIAL SOURCES OF CAPITAL FUNDING FOR ARTSVILLE IN MADISONVILLE (MOTION 2019-213)**

Cincinnati City Council at its session on February 6, 2019 submitted the following item for report:

MOTION, submitted by Councilmember Mann, WE MOVE that the City Administration provide a report with recommendations for potential sources of funding for addressing capital costs outlined by Kathy Garrison of Artsville in Madisonville. The capital costs are listed below in priority order:

1. Repair first floor HVAC unit; estimated cost: \$4,400
2. Replace rooftop HVAC unit; estimated cost: \$12,000-\$14,000
3. Replace sound system; estimated cost: \$9,000

BACKGROUND

In 2005, the City executed a lease agreement with the Community Arts Institute, Inc. (CAI, for the renovation of the former Madisonville Senior Center into the Madisonville Art and Cultural Center. The City provided several capital grants totaling \$150,000 towards the renovation of the building. In 2011, the City and CAI decided to mutually terminate the lease agreement to the space as CAI had determined that it was not economically feasible for them to continue to operate the building.

In 2011 the Department of Community and Economic Development (CED) began soliciting proposals for a new use of the property. CED worked in partnership with Madisonville Community Council (MCC) to determine uses that would be well received by the community, and a continuation of a community arts space was recommended. CED received a proposal from Artsville Corporation, a non-profit 501(c3) organization dedicated to promoting appreciation of the visual, healing, literary and performing arts. MCC supported the proposal from Artsville and a lease was executed in June 2016 that included an initial term of one year with an optional nine, one-year extensions. The annual extension is approved by the City if Artsville satisfies the Operation Conditions, which include:

- A) Continually operating a community arts center at the property. Artsville must submit an Operational Report annually that outlines the events hosted in the preceding year as well as the events planned for the following year and the events must be advertised.
- B) Maintaining an annual budget outlining all revenues and expenses and include the preceding year's budget as well as the following year's budget in the Operational report.

- C) Establishing a maintenance and inspection schedule for the roof, elevator, and HVAC systems.
- D) Maintaining operating funds of at least \$20,000 in a bank account controlled by Artsville.

Base rent is set at \$1 per year and the lease is a triple net lease, meaning that the tenant is responsible for all utility costs, real estate taxes and assessments, and all other expenses associated with the property, including maintenance and repairs. At the end of the current renewal terms of the lease the building will revert to City control if the lease is not further extended.

Artsville has performed under the lease, successfully programming the space with community arts events, maintaining the property in a state of good repair, and submitting annual Operational Reports. The lease was recently renewed for a third time through June 2020.

CAPITAL RESOURCES

Due to the City's limited resources to maintain excess City property, DCED has been working continuously to sell or lease City owned property to put the property back into productive use and reduce the operating and capital expenses required by the City on excess property. A common condition for lease agreements executed and overseen by DCED is that the lessee is responsible for all maintenance and capital repairs on the property as a condition of the lease. While some leased property comes with deferred maintenance on the core building systems, as was the case for the Artsville building, this deferred maintenance is part of the rationale for a less than fair market lease payment by the lessee and it is the expectation that the lessee would repair and replace these systems as needed during the term of the lease. As a general practice, DCED does not fund capital repairs with its limited property maintenance resources that are the obligation of a lessee under a lease agreement.

DCED is working to stabilize a vacant building that is part of the Department's property holding portfolio that requires a significant amount of funding to bring into vacant building maintenance standards. Following the award of this contract, DCED expects to have a more firm understanding of its remaining property maintenance resources for FY20. Provided that Artsville Corporation remains in good standing on all other terms included in their lease, and continues to offer the community art services and space that is valued by Madisonville residents, DCED will discuss a lease amendment or other appropriate vehicle with Artsville that ensures these deferred capital expenses can be completed.

RECOMMENDATION

DCED will report back on the status of this property following further evaluation of its property holding resources for FY20 and additional discussions with Artsville.

CC: Philip M. Denning, Director, Department of Community & Economic Development