Arlington County Civic Federation
Revenues & Expenditures Committee
Report on the Cultural Center proposed for the former Newseum space
Presented 4/7/09

I. Contextual Background

The Cultural Center proposed for the former site of the Newseum in Rosslyn is not specifically a part of the County Manager's proposed FY10 budget.

We have prepared this report at this time for several reasons.

One, it is anticipated that the County Board will vote on whether to proceed with the Cultural Center development within the next several months. In terms of both front-end capital and on-going tax support, we see this decision as having material fiscal implications for the County.

Two, our report on the Manager's proposed FY10 budget details the steep reduction in PAYG spending. Beyond the projects mentioned in that report, the County has a list of additional, one-time capital needs for which funding does not appear to be available in the short or even medium term. As we will discuss below, a decision not to proceed with the Cultural Center proposal will trigger one-time payments from the owner of the Newseum property of between $7M and $10M. These funds could potentially be used to fund these capital projects.

Accordingly, we feel a report on the Cultural Center is timely, and are putting forth our recommendations for a separate vote by the Federation on April 7.

In preparing this report, we have reviewed the County Manager reports on the project, the business plan as prepared by county staff and the report of an outside consultant.

II. The Cultural Center Proposal/the Physical Space

As described in the fall edition of *Rosslyn Magazine,* found on the Web at http://www.rosslynva.org/_files/docs/fall-2008-rosslyn-mag.pdf, the converted former Newseum space would include:

- a retail crafts shop
- a central box office, for ticket sales for any arts event in Arlington
- a café
- a ballroom, fully covered by a wood dance floor, in the space the Newseum used for its video wall
- a black box theatre, seating 125, in the space that had been used for the TV studio, to be the new home of the Washington Shakespeare Company (WSC)

- a second theatre, seating 220, located in the dome, expected to be the new home of Classika Children's Theater
- replacement gallery space as the new home for the Ellipse Arts Center

According to a report from the County Manager dated 11/14/08, front-end capital improvements are estimated at $4M, which would come from park bonds ($1.67M currently being reserved for the renovation of space for WSC; $950K for a boathouse; and $250K for Greenbrier tennis) and $1.13M from the Rosslyn Fund.

III. The Operating Budget

As described in the *Rosslyn Magazine* story, the space is being provided "rent-free" by the owner of the building as part of the community benefit package on a new site-plan property several blocks away being developed by the same ownership group.

"Rent free", however, does not equate to "cost free."

While there is no base rent for the first ten years of the 15-year lease, the County, as a tenant, will be solely responsible for the following charges (all stated in FY10 dollars):

- Allocated share of common area maintenance - $201K
- Allocated share of real estate taxes - $228K
- Maintenance and operating costs of the Center's dedicated HVAC system and separately metered electricity - $103K.
- Maintenance of the elevators/escalators within the Center - $15K

Beginning in lease year 11, the County will be obligated to pay 33% of fair-market base rent, with an increase to 67% in year 12, and full market-rent for years 13-15 and the five-year option period. Figured conservatively at $20 per square foot, full market rent will exceed $1M per year.

Adding these costs to the basic operations (including staffing for 12 operating hours per day, 7 days a week – a total of 20 FTEs) yields a total operating cost of approximately $3M per year during the initial "free rent" period.

Budgets for the Center show a variety of income sources. Two of the major ones are musical events in the ballroom (72 per year; 200 people per event; $25 per person; $360K total) and ballroom dance events (96 per year; 200 people per event; $15 per person; $288K total).

We have yet to see a proposed budget that has the Center breaking even operationally, even during its "free rent" period, even with annual support of $200K from the Rosslyn BID. Even accepting the budgets as presented – and we are skeptical of how achievable the revenues are – the projected annual operating shortfalls are about a quarter of a million dollars per year. Additionally, annual debt service on the bonds for the upfront renovations would come to another $290,000 in the initial years.

IV. The Alternative - Not Proceeding with the Center

As negotiated, the lease for the space gives the County the alternative of terminating the lease as of June 30, 2009. If the County exercises its termination right, the developer is obligated to pay the County the value of the abated rent, estimated at approximately $7M, with the payment due by December 31, 2009. Additionally, if the County elects to terminate, the developer then has a conversion option for the space, eliminating the use restrictions that currently exist on it. The cost to exercise this option is $3M.

If the County elects to terminate the lease, in all likelihood it will receive $10M from the developer prior to the end of this year. Added to the front-end capital requirement, the opportunity cost to the County for the Center is $14M – and that figure does not include any operating subsidies that may be needed, even during the “free rent” period, certainly after the “free rent” period expires.

V. Recommendation

We are in the middle of a budget season the likes of which Arlington has not experienced in a very long time.

Despite a proposed real estate tax rate increase, proposed spending will decrease by 2.4%. Among the County Manager’s proposals:

- Elimination of 105 FTE positions
- No step pay increases
- Closing of a nature center
- Half-closings of three branch libraries
- A 69% drop in maintenance capital PAYG funding

Further, in the opinion of many, the FY11 budget has much the same outlook – more cuts, higher taxes, or both.

While we have some concerns about the viability of the Newseum location for a cultural center, we do not even need to reach that analysis to form a recommendation. It may be the wrong place – but given the budgetary situation and outlook, it most certainly is the wrong time. We do not see a plan that involves a $14M front end investment and probable operating subsidies as being appropriate in the current economic climate.

There is a wide range of possible uses for the $10M the County would receive by terminating the Newseum space lease. Among them:

- Badly needed roof replacements at Fire Station #1 (Glebe Road), the Fire Academy and the Aurora Hills Complex (combined cost $1.465M)
- The County share of the proposed renovations at Thomas Jefferson ($1.2M)
- Restoration of at least some of the street re-paving program, which has been extended to a 42-year cycle (65% below historical levels)
- Renovations necessary for on-going operations at Gulf Branch Nature Center ($120K)
- The demolition of the abandoned Bromptons apartment building in Cherrydale ($1M)

Accordingly, it is our recommendation that the Federation opposes the proposed Cultural Center and urges the County Board to terminate the lease, using the funds for needed one-time maintenance capital and other similar expenditures.

VI. Proposed Resolution

Whereas, the Revenues & Expenditures Committee of the Arlington County Civic Federation has issued a report on the proposed Cultural Center for the old Newseum site in Rosslyn; and

Whereas, this report details certain facts about the proposed Center, and recommends that the County Board not proceed with the project and exercise the right of termination as provided in the lease; and

Now therefore, the Arlington County Civic Federation opposes the Cultural Center project in Rosslyn, and urges the County Board to exercise the termination rights under the existing lease for the property, using the approximately $10M to be received by such termination for various one-time capital maintenance and other one-time uses as the Board sees fit.