

Long Beach Museum of Art

July 21, 2009

Mr. Patrick West, City Manager
City of Long Beach
333 W. Ocean Blvd. 13th Floor
Long Beach, CA 90802

Dear Pat West,

The purpose of this letter is to further discussions between the Long Beach Museum of Art Foundation ("Foundation") and the City of Long Beach ("City") as they pertain to the \$3,060,000 bond issuance ("Bonds") facilitated by the Long Beach Bond Finance Authority ("Authority"). The Foundation is keenly aware of the financial strain that the September 1, 2009 maturity of these Bonds has placed on the City and we are hopeful that the Foundation and the City can reach an understanding that is sensitive to the City's fiscal position and which allows this institution of art and culture to continue and to flourish for the benefit of our community.

Having reviewed our files in this matter, and in order to ensure that the parties are approaching this circumstance with a similar understanding of the operative facts, we thought it would be helpful to summarize our conclusions regarding the scope and extent of the Foundation's financial obligations to the City.

The Foundation's obligations to the City pertaining to the Bonds are encompassed in the Pledge and Agency Agreement dated September 1, 1999 ("Pledge Agreement"). The Pledge Agreement obligates the Foundation to set aside fifty percent (50%) of its capital improvement fundraising generated during the term of this agreement. These so-called "Pledged Moneys" are to be utilized for (i) monthly Bond interest payments, (ii) Bond administrative expenses, (iii) improvement costs not to exceed \$1,000,000 (unless otherwise approved by the City), and (iv) prepayment of rent that the City owes to the Authority under its lease arrangement. Section 4.04(c) of the Pledge Agreement further obligates the Foundation to pay the "Required Amount" to the City on a monthly basis regardless of whether or not sufficient Pledged Moneys are available. The Required Amount, as defined in the Pledge Agreement, is equal to monthly Bond interest payments and Bond administrative expenses. The Foundation has paid to the City the entirety of the Required Amount that has so far become due, and the Foundation will timely deliver any further payments of the Required Amount which become due through the September 1, 2009 Bond maturity date.

However, what becomes clear upon a review of the Pledge Agreement is that the Foundation did not unconditionally commit to repay Bond principal. To the contrary, based upon our read of the Pledge Agreement the Foundation is only obligated to deliver Bond principal payments to the City up to the amount of any remaining Pledged Moneys. We thought it was important to clarify this point as the City and the Foundation may have previously been operating under the mistaken belief that the Foundation is responsible for the full amount of the Bond principal.

As the City is well aware, despite the best efforts of the Foundation and its staff, the Foundation's fundraising efforts regrettably fell short of its goals, leaving a significant shortfall between the amount the Foundation owes to the City under the Pledge Agreement and the amount the City is required to pay in order to satisfy the Bonds at maturity. We have provided below for the City's review a reconciliation which details the amount of Pledged Moneys that have been raised by the Foundation during the term of the Pledge Agreement, the manner in which these funds have been applied to date, and the Foundation's determination of the balance owing to the City as of the date of this reconciliation. As you will note, the Foundation calculates the balance of Pledged Moneys due to the City as of June 30, 2009 at \$158,253.00.

Capital Campaign contributions received per City of Long Beach audit of Long Beach Museum of Art Capital Campaign dated June 2008. The scope of the audit was defined as the period from October 1, 1995 through December 31, 2006. (Note that no additional capital campaign contributions were received since December 31, 2006.)

5,417,000

Minus contributions received prior to commencement of the Pledge Agreement on September 1, 1999.

<992,700>

Capital Campaign contributions received during the life of the Pledge Agreement

4,424,300

"Pledged Moneys" as defined in the Pledge Agreement is 50% of contributions received during the term of the Pledge Agreement. See Article I, Section 1.01 of the Pledge Agreement.

2,212,150

Article IV, Section 4.04 (b) of the Pledge Agreement states that the Foundation shall cause the "Pledged Moneys" to be applied as follows:

1. First, to the payment of the "Required Amount" as defined in Article I Section 1.01. The "Required Amount" includes ten years' interest (\$694,900 through June 09) and "Additional Payments" as defined in the Lease Agreement (\$212,997, through June 2009 for administrative fees and \$146,000 for Bond issuance costs). Any additional payments of interest and administrative costs through September 1, 2009 will be added to this total paid.

<1,053,897>

2. Second, payment of costs of the Improvements - \$1 million

<1,000,000>

3. Third, to the prepayment of Base Rental Payments and redemption of the Bond. This remaining balance represents the amount currently owed by the Foundation to the City under the Pledge Agreement

\$158,253

The Foundation has sufficient funds to pay this amount, and upon payment of this sum the Foundation will have satisfied its obligations to the City in full. In order to ensure that the Foundation properly closes its accounting for this matter, please advise us as to the date upon which the Bond principal has been paid, or is hereafter paid, by the City.

When the City retires the Bonds, the sublease between the Foundation and the Authority, and the sub-sublease between the Authority and the City, will both expire by their own terms. This will leave the Foundation in possession of the premises pursuant to its February 16, 1999 lease with the City, the initial term of which continues through March of 2024, with options to thereafter further extend. Although the amount the Foundation owes the City is far less than we all had hoped the City would have received, the Foundation is committed to continuing museum operations for the benefit of the City and its residents for the duration of its lease.

Thus, and in order to assist the City in this time of financial difficulty, the Foundation is willing to accept, as stated in our previous proposal, a substantial reduction in its annual management fee received from the City for the upcoming fiscal year. More specifically, the Foundation would agree to a 15% reduction from its current annual fee, \$569,000 to \$484,000. While the Foundation may not be able to continue providing the current level of service indefinitely at this reduced rate of City funding, the Foundation should be able to continue the current level of service at this funding rate for the next fiscal year. We understand that this may be a small concession relative to the City's obligation to the bondholders. However, the Foundation has limited resources and this reduction represents a significant decrease in our operating budget which is intended to alleviate a portion of this financial burden.

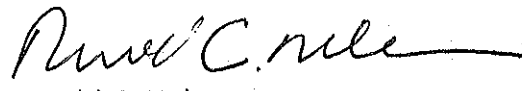
We would be pleased to meet with the City to discuss this matter in greater detail. We are also open to additional suggestions as to how the Foundation can continue to be a cooperative partner with the City as we look toward the future with a common goal of enriching our community through the arts.

Sincerely,



Roberta Jenkins

LBMA Foundation Board President



Ronald C. Nelson

Executive Director

cc: Suzanne Frick, Assistant City Manager