



A Tradition of Stewardship
A Commitment to Service

Agenda Date: 2/2/2010

Agenda Placement: 7N

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors

FROM: Florin, Lawrance - Director
Community and Intergovernmental Affairs Division

REPORT BY: Lawrance Florin, COM AND INTERGOV AFFAIRS MGR - 253-4621

SUBJECT: Promissory Note to Cinema Napa Valley from the Special Projects Fund for Napa Valley Film Festival and a Budget Transfer

RECOMMENDATION

Community and Intergovernmental Affairs Manager requests the following:

1. Approval of Budget Transfer No. CEO019 appropriating \$50,000 in the Special Projects Fund budget, funded by the partial cancelation of a designations (4/5 vote required); and
2. Approval of and authorization for the Chair to sign a Promissory Note with Cinema Napa Valley for a principal sum of \$50,000 with interest rate of 3% per annum to be repaid over three annual installments to establish, promote and carry out the proposed annual Napa Valley Film Festival.

EXECUTIVE SUMMARY

At the October 27, 2009 meeting of the Board of Supervisors, Supervisors Luce and Wagenknecht asked that a future agenda item be calendered to consider lending funds from the Special Project Funds to the Napa Valley Film Festival. Cinema Napa Valley requested \$250,000 in order to establish, promote and carry out the proposed annual Napa Valley Film Festival. At the December 15, 2009 meeting, the Board directed staff to return with a contract to loan \$50,000 to Cinema Napa Valley from the Skyline Park Purchase Designation money in the Special Projects Fund.

The requested action today is for the Board to first approve the budget transfer to partially cancel the Skyline Park Purchase Designation in the Special Projects Fund and increase the appropriation in the Special Projects Fund. This action takes 4/5 vote. If the Board approves the budget transfer, approve and authorize the Chair to sign a Promissory Note with Cinema Napa Valley for a principal sum of \$50,000 with interest rate of 3% per annum to be repaid over three annual installments. The first proceeds received each year by the Cinema Napa Valley associated with conducting of the Napa Valley Film Festival will be used to repay the loan.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Fund 1030 - Special Projects Fund. \$50,000 will be canceled from the Skyline Park Designation and appropriated in the Special Projects Fund budget.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The requested action today is based on the decision made by the Board at the December 15, 2009 meeting.
Is the general fund affected?	No
Future fiscal impact:	Repayment requirement is for Cinema Napa Valley to repay \$50,000 in three annual installments from the first proceeds received each year by them associated with the conducting of the Napa Valley Film Festival. However, at this point, the County has no guarantee that the Borrower will be able to repay \$50,000 in accordance with the terms set force in the Promissory Note as the success of the Film Festival is speculative at this point for the reasons described in the background of this board letter.
Consequences if not approved:	The Board would be overturning the decision made on December 15, 2009.

Additional Information:

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

At the October 27, 2009 meeting of the Board of Supervisors, Supervisors Luce and Wagenknecht asked that a future agenda item be calendered to consider lending funds from the Special Project Funds to the Napa Valley Film Festival. The Napa Valley Film Festival requested \$250,000 in order to establish, promote and carry out the proposed annual Napa Valley Film Festival. At the December 15, 2009 meeting, the Board directed staff to conduct the appropriate due diligence and return with a contract to loan \$50,000 to the Napa Valley Film Festival from the Skyline Park Purchase Designation money from the Special Projects Fund.

Staff conducted background research on Cinema Napa Valley and verified following:

1. There is an Articles of Incorporation of Cinema Napa Valley as a California Public Benefit Corporation filed with the Secretary of the State.
2. The organization was created as a non-profit public benefit corporation and is not organized for the private gain

of any person. It is organized under the Nonprofit Public Benefit Corporation Law for charitable purposes. The specific purposes for which this corporation is organized are to further the art of independent filmmaking and filmmaking education through raising funds 1) to support the exhibition of independent films at an annual Napa Valley Film Festival, 2) to underwrite the presentation of special film programs for Napa Valley residents and visitors throughout the year, and 3) to encourage and expand student filmmaking programs and film education in Napa Valley Schools.

3. Cinema Napa Valley is newly formed and has no assets at this point. Marc Lhormer ran the Sonoma Film Festival for seven years but is no longer with the organization. Marc Lhormer was the Executive Director & Artistic Director of the Sonoma Film Festival. Brenda Lhormer was the Vice President and Co-Director. The 13th Annual Sonoma International Film Festival is scheduled for April 14-18 this year.

4. Following positions are expected to be created within the first year to establish, promote and carry out the proposed Napa Valley Film Festival:

- | Executive & Artistic Director: \$120,000 base salary (Marc Lhormer)
- | Co-Director: \$90,000 base salary (Brenda Lhormer)
- | Marketing Director: \$84,000 base salary
- | Development Director: \$84,000 base salary
- | Operations Director: \$78,000 base salary
- | Program Director : \$60,000 base salary
- | Administrative Director: \$60,000 base salary

5. The Board members of the organization are:

- | Jill Klein-Direct involvement in the Napa Valley community as a proprietor of a working winery, member of the Napa Valley Vintners, active parent and volunteer with local schools, and Board Member for other community-based non-profit organizations.
- | Rex Albright-Currently the President of the Calistoga Chamber of Commerce in Napa Valley. An active advocate for positive economic development and collaboration between business and community interests.
- | J. Todd Harris-Over 25 years working in Hollywood as a film producer, with credits on over 35 films. Has attended film festivals all over the world, and also was a producing partner on the feature film Bottle Shock.

6. All intellectual property associated with Cinema Napa Valley, including the name "Napa Valley Film Festival" and all film festival production handbooks, will be owned by Zin Haze Productions, and outside company owned by Marc and Brenda Lhormer. Zin Haze Productions will license all intellectual property associated with Cinema Napa Valley back to the nonprofit at no cost. There will be no conditions imposed on Cinema Napa Valley in exchange for this contribution.

7. Below is the Proposed Budget submitted by Cinema Napa Valley for the first year of operation:

RECEIPTS

Gifts	-
Grants	-
Contributions received	<u>\$850,000</u>
Fundraising	-
Membership income	-

Nonmembership income (R&TC Section 23701g)	-
Membership dues and assessments (R&TC Section 23701t)	-
Other business income – Corporate Sponsorship	<u>\$400,000</u>
Gross investment income	-
Gross royalty income	-
Gross rental income	-
Gross receipts from admissions	<u>\$550,000</u>
Gross receipts from commissions	-
Gross receipts from sale of merchandize	-
Gross receipts from services provided	-
Gross receipts from furnishing of facilities	-
Gain or loss from sale of capital assets	-
Other income (Attach sheet itemizing each type)	-
TOTAL RECEIPTS	<u>\$1,800,000</u>

EXPENSES

Fundraising	
Contributions, gifts, grants, and similar amounts paid	
Disbursements to or for member benefit	
Compensation of officers	\$120,000
Compensation of directors	
Compensation of trustees	
Rental expenses	
Other salaries and wages	\$600,000
Occupancy (rents)	\$30,000
Other (including all operational and administrative expenses*)	\$1,050,000
TOTAL EXPENSES	\$1,800,000

Excess of receipts over expenses: \$0

*Other Expenses (all operational and administrative expenses)	
- Program Development	\$120,000
- Marketing & Sales	\$280,000
- Administration	\$100,000
- Film Festival Production	\$550,000
Subtotal – Other Expenses	\$1,050,000

The loan would be classified as a speculative loan at this point. Cinema Napa Valley is a new organization without a track record in the County. While it is possible that the festival will be successful, there is no analytical basis for that assessment. As seen in above, the proposed budget for the first year of the Film Festival is \$1.8 million. \$850,000 is to come from contributions from local governments or private donations and another \$400,000 from corporate sponsorship. To date, no other jurisdictions within the County have agreed to loan funds to this organization for purposes of creating a film festival. Therefore, at this point the County would be acting without the explicit financial support of the other jurisdictions. As for the corporate sponsors, there is no firm commitment at this point but the Executive Director is aggressively speaking to the potential sponsors. There are substantial donations of wine, catering, hotel rooms and marketing services being offered.

At the Board meeting of the December 15, 2009 the Board directed staff to reduce the amount of funds to be

transferred to destination and tourism promotion that comes from the special projects fund in the event that these funds were not repaid. It would be staff's intention to reduce the appropriation from special projects designated in future cycles for tourism and destination promotion if these funds are not repaid.

\$50,000 funding from the County will be used for the development expenses helping them to establish the organization and raise \$500k+ from Founding Patrons. The expenses include: Legal/filings, website development, marketing & sales materials, event expenses including video projection, catering, invitations, rentals, etc., travel expenses to both New York and Los Angeles for building film industry relationships.

The requested action today is for the Board to first approve the budget transfer to partially cancel the Skyline Park Purchase designation money in the Special Projects Fund and increase the appropriation in the Special Projects Fund budget. This action requires 4/5 vote. Once that action is approved, authorize the Chair to sign a Promissory Note with Cinema Napa Valley for a principal sum of \$50,000 with interest rate of 3% per annum to be repaid over three annual installments from the first proceeds received each year by the Cinema Napa Valley associated with conducting of the Napa Valley Film Festival. 3% interest rate is what the County currently charges for the loans made through the Affordable Housing Trust Fund. Given that the loan is to a non-profit organization and that the County Fund is currently making little over 1.1% interest, staff determined that 3% is an appropriate interest rate to be charged on this loan. It is also requested that the Board approve a budget transfer to partially cancel the Skyline Park Purchase designation and increase the appropriation by \$50,000 in the Special Projects Fund budget.

SUPPORTING DOCUMENTS

None

CEO Recommendation: Approve

Reviewed By: Maiko Klieman