



NEWS FROM

CITY CONTROLLER

LAURA N. CHICK

City Hall East, Room 300, 200 N. Main St., Los Angeles, CA 90012

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CHICK AUDIT FINDS PROBLEMS WITH FINANCIAL STABILITY OF
CHILDREN'S MUSEUM

\$19 Million of Public Money Just to Build the Museum's Outer Shell

Los Angeles— “My audit of the Children’s Museum paints a troubling picture. This project has already cost the taxpayers almost \$20 million. While this amount will hopefully allow the building’s outer shell to be completed this summer, an estimated \$22 million more is required before the Museum can actually open, maybe... in two more years,” said City Controller Laura Chick.

Originally founded in 1979 and located in downtown, it became apparent in the late 1990's that the Children's Museum was too small to accommodate the growing number of visitors. Consequentially, in 2000, the Board of Recreation and Parks Commissioners and the City Council approved the Museum's plan to relocate to a vacant site owned by the City, located adjacent to the Hansen Dam Recreation Center in the northeast San Fernando Valley.

Construction of the new museum was delayed for several years because of funding problems. To date, the Children's Museum has received over \$19 million in public funds.

In May, the City learned the Children's Museum was having cash flow problems and that construction might be halted. Concerned about the financial condition of the Museum and its ability to pay for the remaining construction costs, the Council passed a motion, authored by Councilmember Richard Alarcon, requesting the City Controller to perform an audit of the Children's Museum.

“It is important to look at how the City got into this difficult situation. Before the Children’s’ Museum began construction, the City failed to obtain the required evidence that the Museum had the sufficient funds to complete the project. This is similar to the crisis in the mortgage industry—lenders have given loans to individuals without proof that they can repay,” said Chick.

“The City failing to obtain assurance that the Museum had adequate private funding is similar to the mortgage industry crisis that leant to borrowers without obtaining proof of financial ability to re-pay,” said Chick.

Among the audit’s findings:

- The Children’s Museum has received \$19 million in public funds, 77% derived through the City. While the construction of the museum’s outer shell is almost complete, the Children’s Museum needs an additional \$22 million within the next one and a half years to complete fabrication of the exhibits and other remaining items in order to open by its March 2009 target date.
- The Museum expended over \$5.8 million for design work... more than half for an unfeasible design which was scrapped.
- The Museum spent 45% (\$3.8 million) of the private donations received on campaign consultants and overhead, not on actual construction.
- Even if the Children’s Museum is able to secure the additional funding to open its doors, it will have an estimated annual operating budget of \$4.5 million. If the Museum is unable to raise sufficient funds to cover the expenses, the City may be called upon to help subsidize the operations.
- The City did not do due diligence in obtaining the evidence that the Museum had the financial ability to provide programming once the capital improvements were completed. The City should have withheld the remaining public funding until such evidence was obtained.

“Unfortunately, the well intentioned Museum Board Members have had great difficulty raising the necessary funds. 67% of their total budget so far has come from the taxpayer, predominantly from the City. Before another dollar of taxpayer money is allocated, the question the City’s leadership must answer is: What is the most fiscally responsible way of proceeding with this project... understanding that the goal has been to deliver to the people of Los Angeles a top-notch, successfully operated Children’s Museum accessible and available to all?,” said Chick.

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