



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Welsh
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: May 17, 2012

Approved

Date

5/18/12

SUBJECT: CULTURAL FACILITIES CAPITAL MAINTENANCE COST SHARING

RECOMMENDATION

It is recommended that a Cultural Facilities Capital Maintenance Matching Allocation be established as part of the 2012-2013 Operating Budget.

1. Approve the following Appropriation Ordinance amendments in the General Fund:
 - a. Increase the revenue estimate for Transfers and Reimbursements by \$69,500;
 - b. Decrease the citywide appropriation for the Tech Museum of Innovation by \$55,250;
 - c. Decrease the citywide appropriation for the Children's Discovery Museum by \$14,250; and
 - d. Establish a citywide appropriation for Cultural Facilities Capital Maintenance by \$139,000.
2. Approve the following Appropriation Ordinance and Funding Sources Resolution amendments in the Convention and Cultural Affairs Fund:
 - a. Establish a Transfer to the General Fund by \$69,500; and
 - b. Decrease the Ending Fund Balance by \$69,500.

BACKGROUND

As regional destinations, San José's cultural facilities generate significant economic impact and downtown vibrancy, while providing education programs to over 1 million visitors a year. City-owned cultural facilities are a major attraction of visitors to downtown, in addition to the HP Pavilion, convention center, and special events. The City provides operating subsidies in the General Fund to the nonprofit organizations operating six City-owned cultural facilities: Children's Discovery Museum, History San José, School of Arts & Culture at Mexican Heritage Plaza, San José Museum of Art, San José Repertory Theatre, and The Tech Museum of Innovation. These subsidies are provided in accordance with the Operations and Maintenance (O&M) Agreements that were developed with each of the operators, usually as the facilities

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came online. Most are long term agreements, ranging from 15 to 50 years. Because of that, each organization's history has a distinct set of circumstances. In some cases, the nonprofit organization raised substantial capital funds to build the facility. In addition, the scope of programming, building size and responsibility varies from organization to organization, affecting the agreements and subsidy amounts.

To help meet the budget shortfall as approved by the City Council, the Mayor's March Budget Message for 2011-2012 included the following: *Operating Subsidies for Cultural Facilities: The City Manager, in cooperation with the Arts Commission where appropriate, is directed to engage operators of City facilities... to examine ways to reduce operating subsidies and support facility sustainability in order to reduce reliance on the General Fund.* Staff subsequently engaged the executive and board teams of the cultural facility operators to approach reductions for 2011-2012 as well as strategies on how to finance capital improvements and maintenance over time. To meet the General Fund shortfall for 2011-2012, cultural facility O&M costs were reduced by a collective 10%, totaling \$358,000.

ANALYSIS

With the contraction of the City budget and the elimination of the Redevelopment Agency, funds for deferred maintenance, major repair, and capital replacement for the City's cultural facilities may only be available for very urgent needs. Estimates of deferred maintenance range from \$6 million to \$12 million for these facilities and over \$37 million if the facilities managed by Team San Jose are included.

While the O&M subsidies were not recommended for further reductions in 2012-2013 the need remains to plan for and finance the sustainability of all the City-owned cultural facilities, including capital improvements and maintenance. To begin setting aside reserves to address the life cycle needs of facilities and relieve General Fund reliance for capital needs, staff reached out to all cultural facilities and recommended the establishment of an optional and ongoing Cultural Facilities Capital Maintenance Matching Allocation for cultural facility operators beginning in 2012-2013. It is recommended that 5% of the current level of each facility operating and maintenance subsidy for participating facilities be redirected into this allocation, with the City match of 5% funded from the Convention and Cultural Affairs Fund. In accordance with Municipal Code Section 4.72.065B.3, Transient and Occupancy Tax (TOT) revenue allocated towards this fund can be used to support cultural facilities. Funds for each participating facility would be tracked separately.

Annually, each participating facility operator would work with the City to determine the projects for the funds. The projects would be capital maintenance or replacement in nature and selected from a project list created through an evaluation conducted by the City retained consultant that assists with maintenance oversight at these facilities through the Department of Public Works, and an assessment of current critical needs made jointly with the operator. Should the funds not be expended in any given year, or there be a desire to "save" the funds for larger projects, it would be requested that the funds be rebudgeted and carried over into the subsequent fiscal year.

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The School of Arts & Culture at the Mexican Heritage Plaza has been a leading partner with the City in establishing a capital maintenance allocation. Per their three year O&M agreement, the City sets aside 10% of the annual subsidy amount into a fund for capital repairs and capital replacements as shown in the City-Wide Expense section of the 2012-2013 Proposed Operating Budget. The arrangement is an exemplary model of partnership between the City and a cultural facility operator aimed at addressing the facility's needs.

In response to the Cultural Facilities Capital Maintenance Matching Allocation opportunity, two other cultural organizations have agreed to participate in an ongoing capital maintenance allocation partnership: The Tech Museum of Innovation and Children's Discovery Museum. The City will match approximately \$69,500 or 5% of the O&M costs from the Convention and Cultural Affairs Fund for these two organizations, and subsequently generate \$139,000 of ongoing funding to set aside for facility needs. Furthermore, the partnership is intended to foster joint responsibility between facility operators and the City to steward these assets.

The City remains committed to working toward meeting the basic maintenance needs of the other cultural facility operators that have opted to not participate in the matching allocation. However, funding for facilities' needs remains limited. Those facilities' needs will be weighed and prioritized with the needs of all City-owned facilities.

The Convention and Cultural Affairs Fund accounts for the revenues and expenses related to the activities of the convention center and cultural facilities which includes the Tech Museum of Innovation and Children's Discovery Museum. The ongoing transfer of \$69,500 from the Convention and Cultural Affairs Fund to support the Cultural Facilities Capital Maintenance partnership will not impact the City Council goal, established in March 2011, of having at least \$1,500,000 in the Ending Fund Balance at the end of the Convention Center Expansion/Renovation project.

COORDINATION

This memo has been coordinated with the Department of Public Works and the City Attorney's Office.

/s/

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