



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kay Winer

SUBJECT: Request from History San José
for Additional Funding

DATE: May 8, 2007

Approved

/s/

Date 05/09/07

RECOMMENDATION

1. Provide an annual operating subsidy of \$574,823 for FY 2007-08 to History San José (HSJ), consistent with the subsidy schedule contained in the Agreement with the City while the City Auditor completes a full financial analysis of additional funding requests. (This is consistent with the process that has been used for requests from San José Repertory Theatre, American Musical Theatre and Mexican Heritage Corporation.)
2. Request the City Auditor to complete the financial analysis in order to respond to the following requests from HSJ:
 - Stabilize the operating subsidy for FY 2007-08 at the FY2006-07 level of \$687,323.
 - Increase annual funding to cover a larger percentage of the \$1,865,000 determined by HSJ as the amount required to maintain basic operations of HSJ.
3. Direct Parks, Recreation and Neighborhood Services to continue working with HSJ to maximize meeting HSJ's highest priorities in landscaping maintenance with existing resources, rather than restore a specific full-time gardener who had worked at History Park for a number of years.

(The May 1, 2007 letter that makes the requests for additional funding and restoration of a gardener is attached.)

BACKGROUND

In April 1998, an Agreement was approved for a twenty-year operating agreement between the City and History San José. This was the culmination of months of negotiations to turn over responsibility for the facilities and collections from the City to the non-profit organization. Negotiations culminated with an Agreement in which a key provision was a mutually-agreed upon schedule of declining operations and maintenance subsidy by the City to HSJ. (See attached schedule.) This approach to providing the operating subsidy was in response to HSJ's request that more support be provided "up front", as the organization was confident that its fund raising capacity would be strengthened over time, thus lessening the amount of City general fund support.

The Mayor's June budget message for FY 2005-06 provided direction that HSJ's operating subsidy be reduced by \$50,000 rather than the \$75,000 called for in the contract. There was also direction to allow HSJ to operate the two parking lots serving the museum during special events. This would provide HSJ with flexibility that it desired, as well as a small amount of additional revenues. During a series of meetings that beginning in September 2005, HSJ also requested to re-open discussions with regard to the subsidy. Staff did not recommend reopening the Agreement to renegotiate new terms for the operating subsidy. It was staff's opinion that by so doing, many, if not all of the other non-profits with an operating subsidy would submit a similar request. On June 13, 2006, the Council approved staff's recommendations to only amend the Operation Agreement to modify the payment for one year and to provide HSJ the opportunity to manage the two parking lots under certain special event conditions.

ANALYSIS

Request to Increase Operating Subsidy

HSJ has stated that it will conclude this fiscal year with an approximate \$250,000 deficit. Further, its letter of May 1, 2007 states that by not reducing the subsidy for next year and maintaining it at the current fiscal year level of \$687,323 will sustain the organization temporarily, but will not be sufficient to carry HSJ to June 30, 2008. According to HSJ, the organization's budget for next year will be \$2.3 million. Of that amount, \$1,865,000 is required to maintain basic operations of HSJ on an annual basis. At this time, HSJ has not determined how much of that amount will be requested of the City on a yearly basis, although HSJ has stated that it is confident that it will be able to raise funds for programming, which is approximately \$435,000 (difference between \$2.3 million and \$1,865,000).

Each of the major arts and culture organizations that have submitted requests to the City for funding above the subsidy contained in their contract have undergone a complete review by the City Auditor and submission of a business or reorganization plan prior to Council action on their respective requests. The organizations include San José Repertory Theatre, the American Musical Theatre and Mexican Heritage Corporation. For consistency, it is recommended that the City Auditor be directed to complete a full financial analysis of the organization and to submit findings and recommendations to the Council. This effort has typically taken approximately three months to complete. HSJ expects that an audit is part of the process of reviewing their request. It is recommended that, pending completion of the Auditor's analysis, the established annual subsidy schedule of \$574,823 be retained for FY 2007-08.

Request to Reinstate Gardener to History Park

History Park, along with all of the other parks facilities in the City, was subject to reductions over the past five years. One of the reductions was the loss of a full-time, dedicated gardener who had been assigned to History Park for a number of years. No further reductions in parks maintenance are proposed for FY 2007-08. Parks and Recreation prepared a History Park Maintenance Plan that describes the services and frequency of services to the facility. These include general routine maintenance and repair items; landscaping such as irrigation, weed abatement, edging, pruning, etc.

Although Parks and Recreation staff has met previously with HSJ and shared the maintenance schedule, it is recommended that additional discussions take place to determine if there are additional ways in which the budgeted resources can be distributed differently to address HSJ's highest priorities.

CONCLUSION

Pending completion of a financial analysis by the City Auditor, it is recommended that the annual operating subsidy for HSJ be consistent with the adopted payment schedule of \$574,823. It is further recommended that Parks, Recreation and Neighborhood Services staff meet further with HSJ to determine how the budgeted resources for History Park can be distributed differently in order to meet the museum's highest priorities.

COORDINATION

The information in the MBA was shared with History San José and the City Auditor.

/s/
Kay Winer
Chief Deputy City Manager

Attachment

1650 Senter Road
San José, CA 95112-2599
408-287-2290
Fax 408-287-2291
www.historysanjose.org



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May 1, 2007

Les White, City Manager
San José City Hall
200 East Santa Clara Street
San José, CA 95113

Dear Les,

Thank you for taking the time last week to meet with History San José (HSJ) to discuss the financial difficulties the Museum is experiencing as a direct result of declining City funding, and to hear about the negative effects occurring at History Park since full time City gardener, Carla Morrison, was reassigned last summer.

This letter is to confirm our conversation that History San José respectfully requests:

- 1) That the City stabilize the current City Operations Payment at the FY07 rate of \$687,323 for the coming fiscal year. Our payment is currently scheduled to drop to ~~\$538,873~~ — a difference of ~~\$148,450~~. ^{574,823}
_{112,450}
- 2) That the City restore Carla Morrison as the full time City gardener assigned to the 14-acre History Park beginning FY08.

Concerning the City Operations Payment— stabilizing at the FY07 Operations Payment rate will help sustain HSJ temporarily, however, it will not be a sufficient amount to carry HSJ to the end of FY08. The estimated budget for that year, according to the HSJ/City Contract, is 2.3 million. Of that amount, approximately \$1,865,000 (based on FY06 Audit) is needed to maintain basic operations of the Museum. HSJ is anxious to begin work with the

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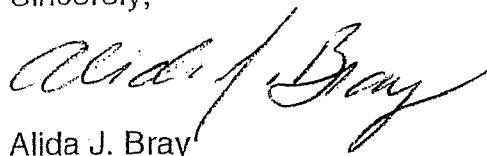


City to determine a level of funding that is fair and reasonable to both the City and HSJ. It is understood that part of that process will include a City Audit and the development of a City approved business plan, which we welcome.

Concerning Carla Morrison—as you know, History Park serves as a primary meeting place for more than 105,000 visitors each year who attend diverse community events. Included in that number are 26,000 school children and teachers and a cadre of neighborhood joggers, power walkers, and strollers. We want to keep History Park looking its best for the community and for the rental events that gross over \$100,000 annually. We depend on this income to fund our annual operating budget. HSJ is specifically requesting Carla Morrison because of her immense and intimate knowledge of History Park as a result of caring for the Park for over 10 years.

Again, thank you for your time and consideration of this request. If you need any additional information, please do not hesitate to call Alida at 408.918.1041.

Sincerely,



Alida J. Bray
President & CEO



Margie Matthews
Board of Directors, Chair

*cc: Mayor and City Council Members,
Kay Winer, Chief Deputy City Manager
Mignon Gibson, Administrative Officer*

May 22, 2006

Subject: SECOND AMENDMENT TO THE OPERATION AGREEMENT WITH HISTORY SAN JOSE

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ATTACHMENT: HISTORY SAN JOSÉ SUBSIDY SCHEDULE

Year	FY	History San José Annual Subsidy	Supplemental Staff Payment*	History San José Total Annual Subsidy
1	1998-99	964,000	199,823	1,163,823
2	1999-00	750,000	199,823	949,823
3	2000-01	750,000	199,823	949,823
4	2001-02	750,000	199,823	949,823
5	2002-03	750,000	199,823	949,823
6	2003-04	712,500	199,823	912,323
7	2004-05	660,000	199,823	859,823
8	2005-06**	610,000	199,823	809,823
9	2006-07	487,500	199,823	687,323
10	2007-08	375,000	199,823	574,823
11	2008-09	135,262	199,823	335,085
12	2009-10	135,262	199,823	335,085
13	2010-11	135,262	199,823	335,085
14	2011-12	135,262	199,823	335,085
15	2012-13	135,262	199,823	335,085
16	2013-14	135,262	199,823	335,085
17	2014-15	135,262	199,823	335,085
18	2015-16	135,262	199,823	335,085
19	2016-17	135,262	199,823	335,085
20	2017-18	61,710	199,823	261,533
Total	98/99-17/18	\$ 8,088,068	\$ 3,996,460	\$ 12,084,528

* Details the supplemental payment that was to remain constant during the entire term of the agreement for four City staff persons that ceased working at the Museum.

**Amount adjusted to detail Subsidy reduction of \$50,000 rather than \$75,000 per direction of "Mayor's June Budget Message for Fiscal Year 2005-2006", dated June 8, 2005.