



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: Cultural Grant Awards
Stabilization Fund

DATE: May 20, 2009

Approved

Christine J. Shippin

Date

5/21/09

RECOMMENDATION

It is recommended that the Council redirect \$800,000 from the 2008-2009 City-Wide Arts Stabilization Loan Fund appropriation to a new City-Wide Appropriation "Cultural Grant Awards Stabilization Fund", and that \$450,000 be allocated in the 2009-2010 budget to augment the Transient Occupancy Tax (TOT)-based competitive Cultural Grant awards to mitigate the 40% drop in the arts-related TOT allocation for 2009-2010. The remaining \$350,000 would be allocated through 2010-2012, \$200,000 in 2010-2011, and \$150,000 in 2011-2012.

BACKGROUND

Arts Stabilization Loan Fund

On October 17, 2006, the City Council approved two measures that promised potentially significant stabilization to San Jose's nonprofit arts sector: a one-time \$4 million "arts stabilization fund" funded in the General Fund, as well as the approval of a \$2 million, 10-year line of credit for San Jose Repertory Theatre (SJRT) (from the initial \$4 million Arts Stabilization Loan Fund) to assist the organization with a financial crisis that threatened SJRT's continued existence. The remaining \$2 million was to be made available for potential City responses to future crises among arts organizations. On October 31, 2006, the Council approved a \$1 million, 5-year line of credit for American Musical Theatre of San Jose (AMTSJ), drawing on the new Arts Stabilization Loan Fund ("Loan Fund"). On December 24, 2008, the AMTSJ filed for Chapter 7 bankruptcy. The City, as a creditor, is coordinating with the bankruptcy trustee.

City Cultural Funding Portfolio

San Jose's competitive arts grants, called the "Cultural Funding Portfolio," are administered by the Office of Cultural Affairs (OCA), a division of the Office of Economic Development. The core of the Cultural Funding Portfolio is composed of three competitive grant programs.

Applications for core grants are accepted once a year, as follows:

- Operating Grants – Generally unrestricted operating support to San Jose-based arts organizations, to support the general goals of: 1) a sustainable community of stable, debt-free arts organizations; 2) a large and diverse number of opportunities for residents and

visitors to enjoy exhibits, performances and other arts activities of high standards of artistic quality; 3) enriched arts and cultural literacy among residents of all ages; and 4) broad-based community-wide participation in the arts accessible to all people, regardless of income, background and abilities.

- Project/Program Grants – Purpose-restricted support for specific arts and cultural activities offered by San Jose-based organizations.
- Festival, Parade and Celebration Grants – San Jose community festivals, parades and celebrations that are held for the economic enhancement, cultural enrichment and/or promotion of the City of San Jose.

Funding for the core grant programs relies almost entirely on the arts-dedicated allocation from Transient Occupancy Tax (TOT) projected revenues. The 2009-2010 arts-related TOT allocation is projected to drop 40% from 2008-2009, from \$3,916,746 to \$2,348,404.

Over the next three years, annual arts-related TOT revenues are projected to remain between \$2.3 and \$2.5 million. The continuation of sharply reduced grant awards brings additional threats of instability and financial challenge to arts and event providers that are already suffering from reductions in foundation and sponsorship support, as well as earned and contributed income. The Convention Center expansion project is projected to account for approximately 18%, or \$822,000, of the reduction in arts-related TOT revenues over the next three years.

ANALYSIS

This memorandum recommends using \$800,000 in uncommitted 2008-2009 funds from the Arts Stabilization Loan Fund to supplement the three Cultural Funding Portfolio core grant programs over the three year period 2009-2010 through 2011-2012. This outcome is in alignment with the original intent and purpose of the Loan Fund. However, instead of seeking to stabilize one arts group in severe fiscal crisis through a line of credit, the proposed use of these funds would help stabilize a community of art groups and event producers experiencing financial vulnerability.

As part of the Mayor's March Budget Message for 2009-2010, the Mayor stated that the Council "should explore opportunities to reduce the [Convention and Visitors Bureau] subsidy and to use a portion of the ConVis Marketing Funds to support our art organizations." Since this Message was approved by the City Council, staff has been exploring ways in which the arts grants budget may be supplemented to buffer arts providers from reduced funding due to the recession and anticipated Convention Center expansion.

At the May 6, 2009, Community and Economic Development CSA Budget Hearing, Councilmember Liccardo put forward the concept that the Arts Stabilization Loan Fund be considered as a funding source to address the deep cuts facing San Jose arts providers, in order to forestall the reduction/cessation of activities that draw visitors and residents and provide economic and social benefits.

At its May 13, 2009 meeting, the Arts Commission proposed redirecting Program, Project and Grants Administration funds to provide more funding for arts and culture organizations through

the three core grant programs in the Cultural Funding Portfolio. Per that proposal, the additional funds would be directed to grantees on a proportional basis according to the 2009-2010 grant awards provided through the Cultural Funding Portfolio. At the time of its May 13 meeting, the Commission has not considered alternatives, including redirecting the remaining \$800,000 in the Arts Stabilization Loan Fund for this purpose. Redirecting funds from the Loan Fund meets the intent of the Arts Commission's proposal to stabilize the nonprofit arts sector and it is in alignment with the original intent of the Loan Fund.

It is proposed that the \$800,000 available in the Loan Fund be distributed to the City's nonprofit arts and cultural partners over three years to buffer the projected decline in the TOT anticipated as a result of the economic recession and Convention Center expansion, in the following amounts:


- FY 09-10: \$450,000 augmentation
- FY 10-11: \$200,000 recommended augmentation
- FY 11-12: \$150,000 recommended augmentation

The augmented funds available for arts grants would be awarded as part of the OCA's existing Cultural Funding Portfolio and related granting process.

Since grants are awarded based on projected TOT, the competitive process for 2009-2010 grant awards has recently been completed and City Council will act upon the Arts Commission recommended awards in June. If this recommendation is adopted in the 2009-2010 budget, the augmentation amount would be distributed across all grantees in proportion to the recommended Cultural Funding Portfolio awards. Therefore, arts organizations and event producers would be held relatively harmless from the majority of the decline in TOT attributable to the Convention Center expansion, projected at \$822,000.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office and the Finance Department.


PAUL KRUTKO
Chief Development Officer