

Memorandum

TO: EXECUTIVE COMMITTEE

**SUBJECT: PROPOSED 2019-2020 OPERATING
BUDGET RELATED TO CULTURAL
DEVELOPMENT PROGRAMS
AND SERVICES**

FROM: Kerry Adams Hapner

DATE: May 3, 2019

RECOMMENDATION

Review and receive the proposed FY 2019-2020 funding allocations for Arts and Cultural Development Programs and Services.

BACKGROUND

The purpose of this memo is to: 1) convey the elements of the City Manager's Proposed 2019-2020 Operating Budget that describe the proposed funding available for cultural development services and programs, 2) outline cultural development priorities, 3) describe the proposed 2019-2020 projected and rebudgeted Transient Occupancy Tax (TOT) allocations, and 4) outline City-wide General Fund support for cultural facilities.

An overview of the Cultural Development TOT Fund, including grant funding recommendations, will be presented for City Council approval as part of the City Manager's Proposed 2019-2020 Operating Budget.

ANALYSIS

The Office of Cultural Affairs (OCA) is funded through TOT, Percent for Art (capital improvement), and grant and/or interagency service agreement funds. The level of TOT collections is directly related to the status of the economy. When the economy is growing, conventions, business travel and tourism activity increase, which leads to higher occupancy rates in hotels. With increased occupancy, the hotels are able to raise room rates, which positively impacts TOT collections. Conversely, when the economy is declining, TOT revenues tend to decrease and can do so quite rapidly.

Fifteen percent of the collected TOT is used for the funding of cultural arts grants and the OCA. Per the municipal code, allowable uses are OCA operating costs (staff and administration), arts programs and arts grants. Each year, grant awards are recommended based on projected TOT.

The total 2019-2020 TOT projected revenue for the arts is \$8,626,886, an estimated growth of 14.8% as compared to the 2018-2019 projection. Current year TOT receipts mark the ninth year of growth.¹

Available Funding

Available 2019-2020 TOT funding for Arts and Cultural Development Programs and Services outlined in the attachment is estimated at \$8,347,885. These funds include:

- Projected TOT revenues, based on the Budget Office's estimate, and
- Estimated "Rebudgeted TOT" from one-time appropriations and unspent 2018-2019 funds (derived primarily from Long Term Reserve, Programmatic Reserve, and unspent program funds).

This amount of funding does not include Percent for Art Funds, which are tracked and managed through the Capital Improvement Program. Also, this funding does not reflect the \$245,000 in secured grant funds from the Packard Foundation, Knight Foundation and National Endowment for the Arts to support the Cultural Development programs.

An additional \$3,425,000 in City-wide General Fund supports the operations and maintenance agreements for six City-owned cultural facilities. Separate from the OCA-managed TOT for arts programs and services, there are additional funds identified to support the capital maintenance and repair needs of these City-owned cultural facilities.

Cultural Development Funding Priorities

As part of the implementation of the Council-adopted *Cultural Connection: San Jose Cultural Plan for 2011-2020*, the OCA's workplan has been developed that reflects the top priorities for cultural development in San Jose.

Cultural Connection strategic goals include:

- Support residents' active, personal participation in arts and culture;
- Support the availability of diverse cultural spaces and places throughout the community;
- Strengthen Downtown San Jose as the creative and urban center of the Silicon Valley;
- Integrate high impact public art and design throughout the community;
- Expand residents' access to arts and cultural learning opportunities;
- Foster destination quality events in San Jose;
- Strengthen community-wide marketing and audience engagement;

¹ The current TOT projections are in stark contrast to the declines of 11.5% and 18.5% in 2009-2010 and 2008-2009, respectively. During the economic downturn and the decade of the City of San Jose's ongoing structural deficit, the OCA's General Fund support was eliminated. To minimize and mitigate the effects of the economic crisis on San Jose's arts sector, the City sought to stabilize services to the arts sector, specifically arts grants, by implementing several strategies including reducing the number of FTE OCA staff positions from 20 to 10 and eliminating core programs and services such as Arts Express, technical assistance grants, small project grants, and special event production, among others. Given the increase in TOT collections, some small programs such as technical assistance grants and project grants have been restored. Additionally, the OCA has been able to restore some positions with approximately 10.75 FTE funded through the TOT and another 2 FTE funded through Percent for Art funds.

- Enhance support for creative entrepreneurs and the commercial creative sector;
- Strengthen the cultural community’s infrastructure; and
- Increase funding for cultural development.

The proposed budget reflects these priorities through allocations for specific initiatives outlined in *Cultural Connection*. Among the priorities are:

- Cultural Funding Portfolio: Operating Grants (OpG); Festival, Parade, and Celebration Grants (FPC); take pART Grants; Fiscal Capitalization Technical Assistance Grants (CAP); Creative Entrepreneur Creative Capacity Grants; Creative Industries Incentive Fund; Fourth of July Fireworks events; and International Arts and Cultural Exchange Grants;
- Arts Marketing, including the *Live and Local* live music campaign and a *Content* magazine sponsorship;
- City Hall Art Exhibits;
- Creative placemaking in the Downtown and City-wide, including the *Playa to Paseo* initiative developed through a partnership with Burning Man Project and a portion of the estimated costs associated with a long term installation of *Sonic Runway*;
- Hammer Theatre Incentive Grants to support the new operating model of the theatre;
- Support for grantees that perform at Le Petit Trianon and may need funding to support a transition to a new facility given the sale of this venue;
- *San Jose Creates & Connects*, a City-wide and neighborhood arts activation strategy;
- Special events such as CityDance and Make Music Day San Jose;
- Studies of the arts ecosystem and the economic impact of public art.

Proposed Program Funding for the Cultural Funding Portfolio and Cultural Development

The recommended 2019-2020 level for the competitive arts and cultural grant programs of the Cultural Funding Portfolio were developed by the following calculation:

Projected 2019-2020 TOT	\$8,626,886
Less Cultural Development Personnel and Non Personnel Costs	- 2,329,606
Less 10% Variance Contingency	-\$862,687

Total Available for Cultural Funding Portfolio **\$5,458,701**

This reflects an increase of 25% in funding available from 2018-2019 for the Cultural Funding Portfolio.

Since grants are awarded based on projected TOT revenues, the variance contingency was established to cover shortfalls of up to 10% in TOT revenues actually received by the City, compared with TOT revenues projected. This situation occurred in 2008-2009 and the variance contingency was critical to offset the TOT fluctuations without impacting awarded grants.

The Budget Office estimated an upward adjustment or “bump” in TOT for FY 2018-2019 in the amount of \$561,500, meaning that there is an excess in collected revenue above the FY 2018-2019 projection. Estimated unspent funds from FY 2018-2019, including reserves, are included in the rebudgeted TOT column of the attached budget, and are used to fund cultural development and implementation of *Cultural Connection*. Rebudgeted TOT funds are “one-time.” It is envisioned that the estimated rebudgeted TOT be allocated to planned *Cultural Connection* initiatives over multiple years.

2019-2020 Cultural Development Budget

There are two notable proposed budget impacts to Cultural Development in the proposed FY 2019-2020 Operating Budget. As the management and administration of the relationship and contracts between Team San Jose and the City have been transitioned to the Director of Cultural Affairs, a Deputy Director of Economic Development, it is proposed that 25% of the personal costs (salary and benefits) of this position be allocated to the General Fund for this proposed.

Given that that the City has supported the Downtown Rotary Fireworks and Almaden Fireworks show for the past several years, the proposed Operating Budget now reflects this with \$65,000 in TOT funding. Important to note, the 2018 event was supported by the City with \$80,000 in TOT funds and additional Parking Funds.

Cultural Facilities

Through the General Fund, the Proposed Operating Budget for 2019-2020 includes continued support the operations and maintenance (O&M) agreements with nonprofit partners operating City-owned cultural facilities. In FY 18-19, the Council approved a new O&M agreement with History San Jose in the amount of \$825,000 for FY 2019-2020 with a increase per the consumer price index. By way of background, to meet the General Fund shortfall for FY 2011-2012, cultural facility O&M costs were reduced by a collective 10%, totaling \$358,000. The following cultural facility operators are recommended to receive continued O&M support through the General Fund in FY 2019-2020 per their existing agreements:

Cultural Facility Operator	O&M agreement
Children’s Discovery Museum	\$285,000
History San Jose	\$825,000
San Jose Museum of Art	\$475,000
SJSU / Hammer Theatre Center	\$285,000
School of Arts & Culture at Mexican Heritage Plaza	\$450,000
Tech Museum of Innovation	\$1,105,000
TOTAL	\$3,425,000

Through the General Fund, the City supports some maintenance and cultural facility capital repair costs, which vary from year to year. The City has made strides towards identifying the capital maintenance needs of its cultural facilities. The City is working in collaboration with the nonprofit operators to ensure that these cultural facilities remain competitive as regional facilities and

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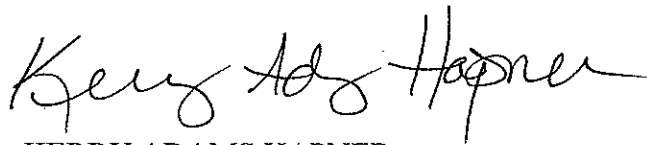
community hubs that serve well over a million people a year. The Department of Public Works develops a capital maintenance plan schedule in coordination with the facility operators and the OCA. In 2012-2013, the Cultural Facilities Capital Maintenance Matching Fund was established to set aside reserves to address the facilities' life cycle needs, in which the City would match 5% of the current level of each facility O&M subsidy and set it aside into this fund. The Children's Discovery Museum, the Tech Museum of Innovation and the School of Arts & Culture at MHP participate in this optional partnership.

Team San Jose, through its TOT allocation and revenues, supports the operations and maintenance of the Center for the Performing Arts, California Theater, Civic Theater, and the Montgomery Theatre. Select capital needs of those facilities are also supported through the Theater Preservation Fund, a nonprofit that collects \$1 per ticket sold for events occurring in those facilities.

OUTCOME

The proposed 2019-2020 Operating Budget will:

- assist San Jose-based arts organizations and creative entrepreneurs to provide arts and cultural activities and experiences for residents and visitors;
- support a wide range of outdoor special events and celebrations; and
- foster cultural development and creative placemaking in San Jose.



KERRY ADAMS HAPNER
Director of Cultural Affairs

Attachment A. Proposed 2019-2020 Projected and Rebudgeted TOT Allocations

Attachment B. Descriptions of Proposed 2019-2020 Projected and Rebudgeted TOT Allocations

2019-2020 TOT Allocations for Cultural Development

Funding Sources:

Projected 2019-20 TOT Revenues	Rebudgeted TOT Funds (One Time Funds)	2019-20 TOTALS
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CULTURAL FUNDING PORTFOLIO
Competitive Grant Programs

1	Festival, Parade & Celebration Grants	759,689	0	759,689
2	Operating Grants	3,912,397	0	3,912,397
3	take pART Grants	351,615	0	351,615
4	Fiscal Capitalization Tech. Assist. Grants	240,000	0	240,000
5	Creative Entrepreneur Grants (CCI) - 2 Yr	30,000	30,000	60,000
6	Creative Industries Incentives (CCI) - 2 Yr	55,000	55,000	110,000
7	Fourth of July Fireworks Grants	65,000	0	65,000
8	Internat'l Arts & Cultural Exchange Grants	25,000	0	25,000
<i>Sub-Total Competitive Grants</i>		5,438,701	85,000	5,523,701

Grants Admin

9	Grant Review Expenses	20,000	0	20,000
10	TOT Revenue Shortfall Contingency	862,687	0	862,687
11a	TOT Long-Term Reserve		782,283	
11b	TOT Long-Term Reserve Augmentation		99,214	
11c	Total TOT Long-Term Reserve			881,497
<i>Sub-Total Cultural Funding Portfolio</i>		6,321,388	966,497	1,764,184

CULTURAL DEVELOPMENT AND CULTURAL CONNECTION IMPLEMENTATION (INITIATIVES/GRANTS)

12	Arts Marketing (Content magazine)		25,000	25,000
13	City Hall Art Exhibits		20,000	20,000
14	Cornerstone of the Arts Award/Arts & Leadership Event		20,000	20,000
15	Creative Expression Campaign		55,000	55,000
16	Creative Placemaking/Temp. Installations: D3 & City-Wide		150,000	150,000
17	Cultural Connection Implementation Strategies		50,000	50,000
18	Hammer Theatre Activation Incentive Grants		50,000	50,000
19	Le Petit Trianon Performing Arts Group Transition Support		40,000	40,000
20	Live and Local Live Music Marketing Campaign (SJDA)		40,000	40,000
21	Make Music Day (SJ Creates & Connects)		40,000	40,000
22	Programmatic Reserve		85,000	85,000
23	San Jose Creates & Connects Program incl Creative Ambassadors		60,000	60,000
24	SV Creates Capacity Building Workshop Series		20,000	20,000
25	SV Creates Partnership: Study of Arts Ecosystem		30,000	25,000
26	Special Events (CityDance series)		70,000	70,000
<i>Sub-Total Cultural Development Impl.</i>		0	755,000	750,000

PUBLIC ART

27	Conservation/Maintenance, Public Outreach, and Policy		100,000	100,000
28	Public Art Economic Impact Study		50,000	50,000
29	Sonic Runway Long Term Install		150,000	150,000
<i>Sub-Total Public Art</i>		0	300,000	300,000

SPECIAL ACTIVITIES

30	Arts Commission Activities		10,000	10,000
<i>Sub-Total Special Projects / Activities</i>		0	10,000	10,000
Totals		6,321,388	2,116,497	8,347,885

Sources of Funds: 2019-20 Arts Budget

- Columns A, B... Transient Occupancy Tax (TOT): City ordinance allocates a portion of San Jose's TOT to the arts for two allowable uses: 1) arts and cultural programs and services, including grants; and 2) funding the expenses of the Office of Cultural Affairs, including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.
- Column A: Represents the City's projection of TOT revenues to be received from July 2019 through June 2020 less anticipated cultural development personnel and nonpersonnel costs.
- Column B: Includes actual TOT collections that have been carried over ("rebudgeted") from the previous year, including various reserves, unspent funds, liquidated purchase orders and grants, revenues that exceeded projections in previous years, etc. One time funding.
- Column C..... The total estimated amount of projected and rebudgeted TOT (sum of columns A and B).

Uses of Funds: 2019-20 Arts Budget

- Lines 1-8..... Cultural Funding Portfolio Competitive Grant Programs: Festival, Parade and Celebration grants; Operating Grants; take pART Grants; Fiscal Capitalization Technical Assistance Grants; Creative Entrepreneur Creative Capacity Fund Grants; Creative Industries Incentive Fund; Fourth of July Fireworks grants; and International Arts and Cultural Exchange Grants.
- Lines 9..... Grant review panel materials, advertising of grant opportunities, honoraria, etc.
- Line 10..... TOT Revenue Shortfall Contingency: 10% of TOT revenues are withheld in case revenues do not meet projections, to minimize the need for midyear grant reductions or program cuts.
- Lines 11a-c... TOT Long-Term Reserve: Funds set aside in growth years for use when TOT falls. A long-range purpose, if the growth of the Reserve supports it, is to utilize this funding to stabilize grant funding or switch to basing grants on collected rather than on projected TOT revenues.
- Line 11a – Funds allocated to the Long-Term Reserve at beginning of 2018-19
 - Line 11b – Long Term Reserve recommended for augmentation
 - Line 11c – Remaining Long Term Reserve after augmentation
- Lines 12-26..... Cultural Development/*Cultural Connection* Implementation includes strategic initiatives such as: arts marketing, City Hall exhibits, Cornerstone of the Arts Award Program and Event; Creative Expression campaign; Creative Placemaking downtown and City-wide; Hammer Theater activation grants; funds to support Performing Arts Groups to transition from the Le Petit Trianon; Make Music Day; San Jose Creates & Connects City-wide initiative; capacity building services through a special grant to SV Creates; a partial funding of a study conducted in partnership with SV Creates; CityDance; and other cultural development strategies aligned with *Cultural Connection*. Programmatic Reserve is the source of funding for future arts programs and implementation strategies - both existing programs and new program opportunities - as rebudgeted TOT is one-time funding.
- Line 27-29..... Funding for public artwork conservation, maintenance, and outreach. Includes costs of public art staff time to perform these responsibilities. Note that \$21,000 of General Fund is in the Dept of Public Works budget set aside for general public art maintenance. Also includes partial funding for a new study to estimate the economic impact of public art; and a long term installation of *Sonic Runway*.
- Line 30..... Supports all expenses directly related to the Commission, including events, meetings, retreat, business cards, materials and supplies.