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City Manager's Office

Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL AND AGENCY BOARD

FROM: Debra Figone
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SUBJECT: UPDATE ON THE MEXICAN
AMERICAN COMMUNITY
SERVICES AGENCY

DATE: November 16, 2010

INFORMATION

Over the past few weeks, a number of questions have been raised regarding the City's relationship with the Mexican American Community Services Agency (MACSA), a nonprofit that has been struggling in recent years and that, according to newspaper reports, is currently the subject of an investigation by the Santa Clara County District Attorney's Office. Since its formation in 1964, MACSA has been an important partner to the City in its efforts to provide services to families and youth in the eastern part of San Jose.

As the City Council is aware, City staff has provided extensive technical assistance to help MACSA respond to its challenges with the hope that it could survive. A report on MACSA's situation was provided to the City Council in June 2009 and the City Auditor's Annual Financial Scan of City Funded Community Based Organizations, which included a review of MACSA's financial situation, was provided in April of 2010. This memorandum provides an update to the Council on MACSA and its current relationship with the City.

BACKGROUND

In April 2009, the first reports were made public revealing that MACSA was in financial distress and that funds had reportedly been misappropriated. Following the reports, the nonprofit's Executive Director and other leaders resigned.

Based on the City's long relationship with MACSA and the valuable services the nonprofit has offered to the residents of East San Jose, the City offered technical assistance to MACSA and its interim leaders to help with recovery. Between July 2009 and June 2010, the City offered assistance and advice to help MACSA with operational issues and tactics, fund development, financial systems and real estate support. As part of this assistance, MACSA went through the City of San Jose-sponsored QLBS organizational assessment process to identify areas of weakness and develop a plan for improvement. A consortium of local funders met several times

to share information with MACSA and follow the Agency's progress in addressing its challenges. The City prepared a Corrective Action Plan requiring MACSA to, among other things:

1. Strengthen the skills of its senior management staff and seek new leadership.
2. Ensure accountability, engagement, and training for the Board of Directors.
3. Review its programs to determine possible reductions and cost savings.
4. Enhance its financial systems to address ongoing cash flow needs, satisfy debts, ensure internal controls are in place, and plan for long term organizational stability.

MACSA did make progress. It eliminated programs that were not self-supporting and ensured that remaining programs were aligned with the organization's mission. It approved a fund development plan and actively sought revenue to sustain operations. Financial systems were enhanced and improved. Some assets were sold—a piece of land on Alum Rock Avenue and the administrative building on Jackson Street—that helped to reduce some of the debt incurred. To assist MACSA in disposing of its assets, the City ordered an appraisal for the Youth Center, which is located on Alum Rock School District property. While the School District has expressed interest in purchasing the building, MACSA has not reached agreement to date to sell this property.¹

As of July 2010, the City no longer provides technical assistance to MACSA and is, with the exception of BEST, as explained below, no longer providing financial assistance. At the time technical assistance stopped, we were informed that the nonprofit had reduced its debt and that it was fundraising to try to bridge the remaining \$1 million in debt. Recently, we have learned that the Interim Director has left. We are unclear as to current staffing and leadership and whether the Board of Directors is fully operational. The most recent financials have yet to be received.

ANALYSIS

While the City worked closely with MACSA over the past 40 plus years, recent events have changed the relationship. Following is the status of current efforts:

Community Development Block Grant Funding—MACSA received CDBG funding for over 12 years to help fund senior and youth programming. In FY 2009-10, MACSA received a total of \$229,400 for three programs—a Senior Adult Day Care Program and two afterschool programs. In October 2009, MACSA ended its senior programming, and no more CDBG funds were released for this purpose. Though MACSA submitted an application during the FY 2010-11 competitive application process, the application was deemed ineligible because the Agency could not provide its 2009 financials, a requirement for funding consideration. As a result, the CDBG relationship with MACSA ended effective June 30, 2010.

¹ The appraisal, prepared by Carneghi-Blum, found that the property was in "average condition." With about 47 years left on a 66-year ground lease with a \$1 a year payment. The required use is as a youth center. The As Is Value was set at \$1.12 million, a number MACSA thought was significantly too low and the School District felt was too high. We have not had conversations with MACSA about the potential sale of the property since the appraisal was completed this past summer.

Healthy Neighborhood Venture Fund Funding—Since the Fund's inception in 2000, HNMF has provided funding to MACSA for various youth, senior, and anti-tobacco programs. In FY 2009-10, MACSA was awarded \$109,000 for its Senior Adult Day Care program. However, in October 2009, due to the Agency's fiscal challenges, MACSA closed this program and the remaining funds were transferred to another agency to provide the services. MACSA has not received HNMF funding since October 2009.

BEST Funding—MACSA has been an active participant on the Mayor's Gang Prevention Task Force since its inception and has been a recipient of San Jose BEST (Bring Everyone's Strengths Together) grants for many years. This partnership provided for gang prevention and intervention services both at specific school sites and at the MACSA Youth Center. As part of the FY 2010-11 funding cycle, the City negotiated an agreement with MACSA in the amount of \$128,000 for the provision of youth services. However, the contract has not been executed pending a discussion with the MACSA's Board President and receipt of requested information, including updated financials.

General Funds—For a number of years, MACSA received General Fund operating funding for the Youth Center. In FY 2009-10, MACSA received \$250,750 for this purpose. Due to City budget reductions, this subsidy was not made available after June 30, 2010.

Affiliate Development Projects—MACSA's affiliate, Ketzal, Inc., owns three affordable developments in East San Jose, all financed through the federal Section 202 Program. These projects are independently owned by Ketzal, Inc., and are managed by Midpeninsula Housing Coalition, a well respected developer and property manager in the Bay Area. While several board members from MACSA sit on the Ketzal Board, these projects are not impacted by MACSA's financial troubles.

Smart Start Center—In 2007, the Redevelopment Agency provided a \$500,000 loan to MACSA for the development of an 80-space Smart Start Center at the Youth Center, including classroom and support space. All construction has been completed, but the Center is not yet operational. The project was completed on May 1, 2009. Subsequent to construction completion, Agency and Library staff members met with MACSA staff to review Smart Start requirements, including State Licensing, and to identify potential operators of the Smart Start facility if MACSA was unable to operate the site itself. In October 2009, in response to concerns expressed by Agency staff, MACSA requested six months to locate an operator. During that time, Library staff worked with MACSA on this effort. In October 2010, Library staff visited the site again and determined that there was no Smart Start program operating. They advised the Redevelopment Agency staff of this situation on October 7, 2010, and shortly thereafter the Agency Executive Director provided an Information Memo to the City Council/Agency Board alerting them to the current situation.

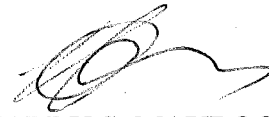
SUMMARY/NEXT STEPS

The Redevelopment Agency and staff from the Library Department will meet with MACSA to make one last attempt to identify potential operators or determine alternative options. At this point it is not recommended that a formal default be issued pending exhaustion of other measures. Staff from the Parks, Recreation and Neighborhood Services Department is awaiting a response from the MACSA Board Chair to a letter sent November 7, 2010, requesting additional information before a determination of funding eligibility under the BEST Program can be made.

In summary, the City provided assistance to MACSA in an effort to help stabilize the organization so that it can continue to offer vital services to East San Jose. While it has in the past, the City does not currently provide operational assistance to MACSA.



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