



Memorandum

TO: EXECUTIVE COMMITTEE

FROM: Kerry Adams Hapner

SUBJECT: (SEE BELOW)

DATE: May 2, 2018

SUBJECT: PROPOSED AWARDS FOR CAPITALIZATION AND SUSTAINABILITY GRANTS

RECOMMENDATION

Recommend that the Arts Commission recommend that the City Council approve the proposed Capitalization and Sustainability Grant awards as specified in Attachment A.

BACKGROUND

As defined by the Nonprofit Finance Fund (NFF), capitalization is “the accumulation and application of financial resources to support the achievement of an organization’s mission over time.” A well-capitalized organization has the appropriate financial resources to deliver on its mission and the ability to adapt to changes in its external environment.

Although most commonly associated with money raised in a capital campaign for building acquisition, the term “capital” is broad and encompasses several different categories of funds, each with its own purpose, including:

- **Working Capital and Operating Reserve** for liquidity and reserves;
- **Change Capital and Risk/Opportunity Capital** for innovation, rightsizing, and changes in business model;
- **Facility & Equipment Capital** for acquisition of hard assets; and
- **Endowment** to generate investment income.

A simplified way of thinking about capital is money that is *invested* to build the organization and strengthen its financial balance sheet for long-term sustainability. This is contrasted with

“operating revenue,” which is money that a nonprofit uses to *operate* (i.e., support its regular annual programming).

Recognizing the importance of supporting the healthy capitalization of nonprofit arts organizations in ways that are not accomplished through its operating grant program, the Office of Cultural Affairs with the support of the Arts Commission began a pilot initiative for a Capitalization and Sustainability Grant program in FY2016-17. The first round provided \$200,000 in competitive grants that supported the capitalization projects of five organizations.

ANALYSIS

Capitalization and Sustainability Grants are intended to be significant one-time catalytic investments that improve the capitalization and sustainability of an organization. Because organizations have different capitalization and sustainability challenges, this grant provides flexibility for the applicant to put forth a strategy to address its most pressing capitalization and sustainability needs. Grants have a two-year term.

Capitalization and Sustainability Grants are focused on organizations with budgets of \$500,000 and higher that receive City operating grant support. Larger budget organizations are targeted because of their complex capitalization needs and the breadth and depth of their impact on the San Jose arts and cultural ecosystem. These organizations provide year-round programs that reach thousands of patrons and create steady employment for significant numbers of professional artists, technicians and administrators.

On April 5, 2018, the Office of Cultural Affairs received Capitalization and Sustainability Grant applications from nine organizations requesting a total of \$316,588. The maximum request amount was \$40,000. All interested applicants were provided a training webinar on sound capitalization principles that laid the groundwork for thinking about their capitalization needs.

Grant Review Panel and Evaluation Criteria

The Review Panel was comprised of the following experienced arts management and capitalization professionals and an Arts Commissioner:

- **Roma Dawson**, *San Jose Arts Commission*
- **Laurie MacDougall**, *Arts Management Consultant*
- **Nancy Ragey**, *Arts Management Consultant*
- **Margaret Southerland**, *Financial Consultant*

The qualifications for each review panelist are described in **Attachment B**.

The Grant Review Panel (“Panel”) met on April 19, 2018 to evaluate the applications

based on the three criteria contained in the Capitalization and Sustainability guidelines:

- **Project Appropriateness and Outcomes (40%);**
- **Ability to Complete the Project Successfully (30%); and**
- **Organizational Impact (30%).**

Grant Panel Recommendations

Because of the nature of these grants and the limited funding, the guidelines noted that grant awards would be highly competitive, with funding recommended only to the most competitive proposals. The panel gave measured and thoughtful consideration to each application against the published criteria. The final overall scores ranged from 88 to 46, out of a maximum of 100. See Attachment A for full list of applicants and scores.

After careful deliberation, the panel recommended funding for the four highest scoring applications given the amount of funding that the panel thought was available. The panel considered funding for the fifth highest scoring organization but ultimately did not act upon it because of the limited allocation. Subsequent to the panel meeting, unspent program funds were identified during a budget review. As a result, positive funding recommendations are being recommended for the top five highest ranking applicants, with minor adjustments based on rankings so that all projects have sufficient funding to be undertaken successfully.

The following five applications are recommended for funding (presented in order of score):

1) San Jose Museum of Quilts and Textiles

Support the Museum Store, expand on the current business model, introduce new profit-making initiatives, and update display equipment in order to double Store net revenue in two years.

Score: 88. Recommended Award: \$40,000

2) Children's Discovery Museum

Purchase and install additional kitchen equipment that will allow its new food operation (FoodShed) to launch catering services to in-house events as well as to local corporations. Generated revenue will stabilize FoodShed's budget.

Score: 81. Recommended Award: \$37,100

3) Tabard Theatre Company

Support facility and equipment upgrades and seed a facilities reserve.

Score: 80. Recommended Award: \$37,200

4) Bay Area Glass Institute

Completion of final phase of construction at History Park. Final phase will consist of offices, a gift shop and glass gallery space, artist lockers, storage space, bleacher seating for visitors, air conditioning/heating, and a finished lobby and educational space.

Score: 79. Recommended Award: \$36,000

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5) Symphony Silicon Valley

Create a board-restricted non-operating Legacy Fund through a planned giving campaign

Score: 68. Recommended Award: \$24,700

PUBLIC OUTREACH

Notices of this grant opportunity were distributed to all eligible organizations. In addition, two public information sessions for applicants were held at City Hall on March 9 and March 13, 2018.



KERRY ADAMS HAPNER
Director of Cultural Affairs

Attachments:

- A. Capitalization and Sustainability Grant Applicants and Scores
- B. Review Panelist Bios

Attachment A:
Capitalization and Sustainability Grant Applicants
(Alphabetical Order)

	Organization	Request	Award	Score	Project
1	Bay Area Glass Institute	\$40,000	\$36,000	79	Completion of final phase of construction at History Park. Final phase will consist of offices, a gift shop and glass gallery space, lockers, storage space, bleacher seating for visitors, air conditioning/heating, and a finished lobby and educational space.
2	Children's Discovery Museum	\$38,588	\$37,100	81	Support equipment to allow food operation (FoodShed) to launch catering services to in-house events as well as to local corporations. Generated revenue will stabilize FoodShed's budget.
3	City Lights Theater Company	\$40,000	n/a	57	Conduct a Capital Campaign Feasibility Study to assess the capacity to undertake a capital campaign and develop new space as part of a planned development project.
4	San Jose Institute of Contemporary Art	\$10,000	n/a	64	Create a flexible display shop to sell artwork by local artists and ICA-branded items. Generated revenue will fund the ICA capital reserve.
5	San Jose Museum of Quilts and Textiles	\$40,000	\$40,000	88	Support expansion of business model of Museum Store, introduce new profit-making initiatives and update display equipment.
6	School of Arts and Culture at MHP	\$40,000	n/a	67	Renovate facility spaces that can then be rented at a competitive rate to new corporate clients for retreats, board meetings, and other gatherings.
7	Starting Arts	\$30,000	n/a	46	Conduct Facility Feasibility Study to determine readiness to take the organization to the next level of securing a long-term or permanent home.
8	Symphony Silicon Valley	\$38,000	\$24,700	68	Create a board-restricted non-operating Legacy Fund through a planned giving campaign.
9	Tabard Theatre Company	\$40,000	\$37,200	80	Support theater facility and equipment upgrades and seed a facilities reserve.
		\$316,588	\$175,000		

Capitalization and Sustainability Panelist Bios

Roma Dawson*Arts Commissioner, City of San Jose*

Ms. Dawson has been a member on the San Jose Arts Commission since 2013 and currently serves on its Public Art Committee. Prior to retirement, Ms. Dawson served as a key staff member for a number of elected officials including Mayor Tom McEnery, Congresswoman Zoe Lofgren, Councilmember (now Mayor) Sam Liccardo, Councilmember (now Supervisor) Cindy Chavez and Councilmember Charlotte Powers. In these roles, she focused on arts, economic development, land use, parks budget and community engagement. Ms. Dawson also served as Director of Cultural Tourism for the San Jose Convention and Visitors Bureau. In coordination with the San Jose Office of Cultural Affairs, San Jose Sharks, and many arts organizations and cultural groups, she developed San Jose's first cultural tourism program and managed a \$3M advertising and public relations campaign. Ms. Dawson also worked for the San Jose Downtown Association and was Festival Director for the first two America Festivals which was a large-scale festival in the downtown held during July 4th weekend to celebrate the diversity of San Jose. She has also managed several political campaigns including two city council races, a supervisorial campaign and was Assistant Campaign Manager for Mayor Susan Hammer. Early in her career, Ms. Dawson owned her own fundraising business and started her professional life as a teacher. She has a degree in psychology from University of California, Berkeley.

Laurie MacDougall*Principal, MacDougall & Company*

Ms. MacDougall has been an independent management consultant to the field of nonprofit arts and culture for over 20 years. She specializes in organizational development for small to mid-sized organizations, and she has worked with hundreds of enterprises at all stages of development, nationwide. Special skills include organizational and program assessments, strategic and business planning, income generation through marketing and development, and facility feasibility analysis and planning. In addition, Ms. MacDougall is frequently called upon by the philanthropic community to conduct large-scale studies about issues relating to the field as a whole, such as: San Francisco Space for the Arts Study, documenting the impact of real estate fluctuations on arts organizations; a study of all the arts facility projects in Central California for the David and Lucile Packard Foundation; regional cultural planning for cities and counties in California. She is the author of *The Arts Managers Toolbox: Fundraising*, published by the National Endowment for the Arts, and *Planning for Marketing (and Other Exotic, Quixotic Notions)*, commissioned by the Council of Literary Magazines and Presses.

Capitalization and Sustainability Panelist Bios

Nancy Ragey*Principal, NKR Consulting*

Ms. Ragey has over twenty years experience as a nonprofit executive who works with nonprofit and philanthropic organizations in the areas of strategic and program planning, evaluation, fundraising, and board development. She served on the staff of Community Foundation Silicon Valley from 1998 to 2006 in a variety of positions including Senior Advisor to the President (2003-2006), Vice President for Community Programs and Donor Relations (2000-2003) and Program Officer (1998-2000). Ms. Ragey spent 14 years at TheatreWorks, a professional theatre company serving the San Francisco Bay Area, as the company's first development director and then four as the first community outreach director. She was also the director of the Foundation for the Future, Menlo-Atherton High School and has worked for CompassPoint Nonprofit Services as a senior and affiliate consultant. As a volunteer, she serves as the Vice President of the Dirk and Charlene Kabcenell Foundation, board member of Lenders for Community Development, and is on the advisory board for the Theatre Department at the University of

Margaret Southerland*Principal, Padma Consulting*

Ms. Southerland is an active consultant to the nonprofit sector through her firm, Padma Consulting, which she founded in 2013. She is the former California Program Officer for the J.P. Morgan Chase Foundation and its predecessor firms, where she reviewed thousands of grant applications from nonprofits in the arts, pre-collegiate public education, and human services sectors. She is active in the California philanthropic and nonprofit communities, and has served in a variety of capacities with entities such as the Arts Education Funders Collaborative; Arts for All Pooled Fund in Los Angeles's, Autry National Center Acquisition Committee; and Nonprofit Space Capital Fund Performing Arts Program. She has presented at Grantmakers in the Arts and provided training to participants of the Center for Cultural Initiatives' Business of Art™ program in San Jose on financing options for individual artists. She is currently providing consulting services to Northern California Grantmaker's Arts Loan Fund, evaluating loan applications from arts organizations in the Bay Area. Prior to her work in the philanthropic sector, Margaret worked for commercial and investment banks in advertising, marketing, public and investor relations, and as a commercial banker.